

# **FINANCIAL REPORT WITH SUPPLEMENTAL INFORMATION**

**CITY OF AUBURN HILLS, MICHIGAN  
DECEMBER 31, 2007**

**PREPARED BY**  
Finance Department

**FINANCE DIRECTOR**  
Gary L. Barnes

**INDEPENDENT AUDITORS**  
Plante & Moran, PLLC

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# **I. INTRODUCTORY SECTION**

**The Introductory Section Contains:**

**A. List of Principal Officials**

**B. Organization Chart**

# PRINCIPAL OFFICIALS

## CITY OF AUBURN HILLS

### CITY COUNCIL

James D. McDonald, Mayor

Mari Harvey-Edwards, Mayor Pro-Tem

Maureen E. Hammond

Robert Kittle

Henry V. Knight

Kevin McDaniel

Otis Newkirk

### CITY MANAGER

Peter E. Auger

### ASSISTANT CITY MANAGERS

Thomas A. Tanghe, Administration

Mark K. Walterhouse, Operations

**CITY CLERK.....** Linda F. Shannon

**CITY ASSESSOR.....** Victor J. Bennett

**FINANCE DIRECTOR.....** Gary L. Barnes

**CITY TREASURER.....** Victoria L. Valko

**DIRECTOR OF SENIORS SERVICES....** Karen Adcock

**DIRECTOR OF GOLF.....** Gordon Marmion

**COMMUNITY DEVELOPMENT DIRECTOR.....** Steven J. Cohen

**RECREATION DIRECTOR.....** Brian Marzolf

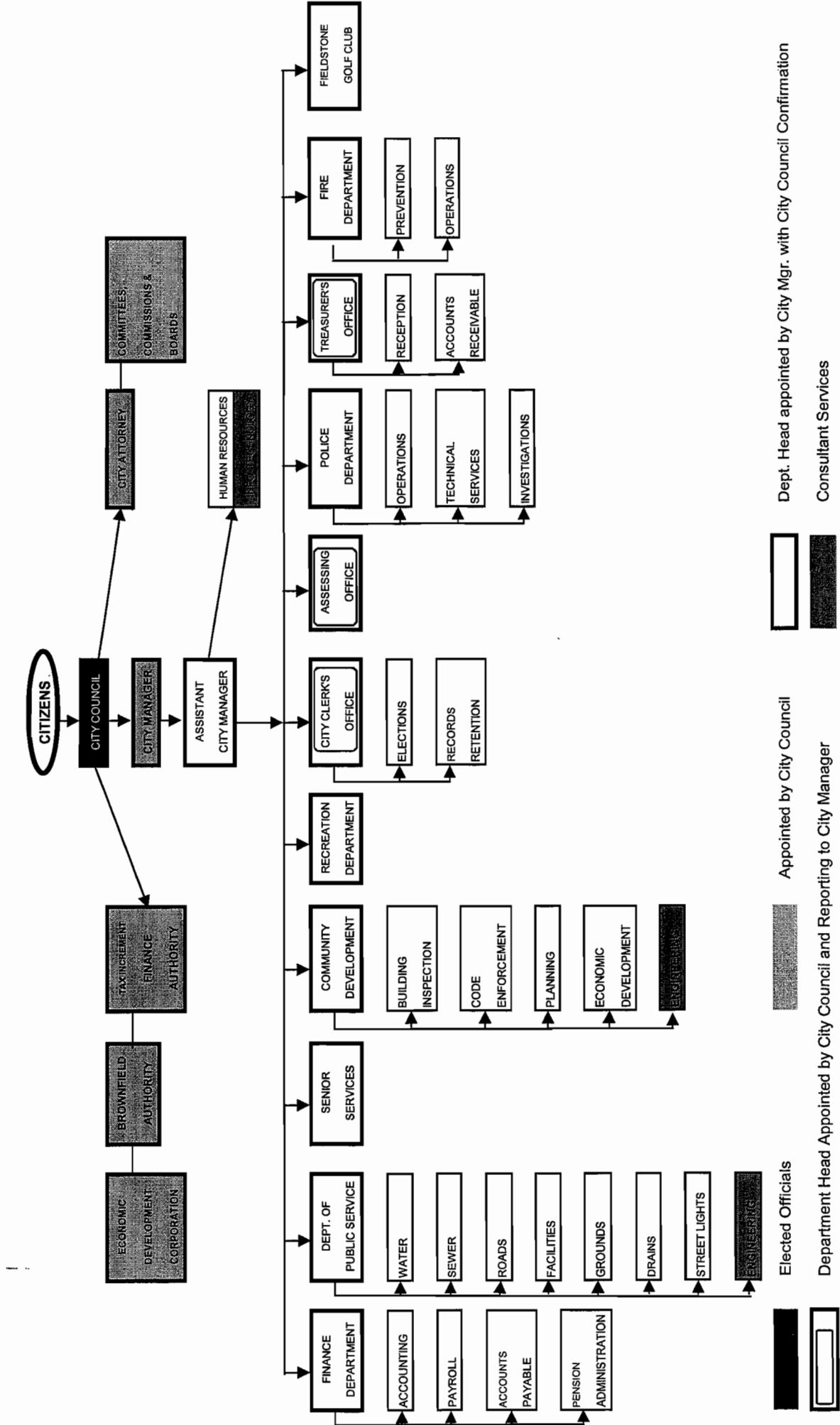
**FIRE CHIEF.....** Mark K. Walterhouse

**POLICE CHIEF.....** Doreen E. Olko

**DIRECTOR OF PUBLIC SERVICE.....** Ronald Melchert

**CITY ATTORNEY.....** William P. Hampton  
Derk W. Beckerleg

# City of Auburn Hills ORGANIZATIONAL CHART



## **II. FINANCIAL SECTION**

**The Financial Section Contains:**

- A. Auditor's Report**
- B. Management's Discussion and Analysis**
- C. Basic Financial Statements**
- D. Notes to Financial Statements**
- E. Required Supplementary Information**
- F. Other Supplementary Information**

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council  
City of Auburn Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn Hills, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Auburn Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn Hills as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system and other post-employment benefit plan schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn Hills' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

June 4, 2008



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CITY OF AUBURN HILLS

As the management of the City of Auburn Hills, we offer readers of the City's Financial Report with Supplemental Information this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2007. We encourage readers to consider the following information in conjunction with the information presented in the City's financial statements.

### FINANCIAL HIGHLIGHTS

The assets of the City of Auburn Hills exceeded its liabilities at the close of the most recent fiscal year by \$177,415,888 (net assets). Of this amount, \$121,942,242 is the investment in capital assets (net of related debt), \$25,776,886 are assets restricted for specific purposes and functions, while the remaining \$29,696,760 represents unrestricted net assets which may be used to meet the demand for resources for the ongoing functions of the City.

The City's total net assets increased during 2007 by \$349,013. The decrease in the net assets of the governmental activities was \$405,824 while the business-type activities experienced an increase in total net assets of \$754,837. In the governmental activities, the decrease is primarily attributable to a decline in tax revenues. While the recurring tax revenues increased in the current year, the total tax revenues declined due to the City recognizing revenues from reclaimed abated taxes in the amount of \$1,287,262 in 2006 and subsequently treated as uncollectible in the current year. The increase in net assets in the business activities is attributable primarily to a one-time retroactive correction in sewer expenses in the amount of \$1.3 million. The expenses were paid by the City in prior years and were subsequently refunded to the City in 2007.

At December 31, 2007, the City of Auburn Hills' governmental funds reported combined fund balances of \$31,113,142, an increase of \$2,689,860 from the December 31, 2006 balance of \$28,423,282. The increase was attributable to increases in General fund revenues, particularly in the categories of tax revenues, service charges, state sources, and interfund charges. The unreserved fund balance at December 31, 2007 for the General fund was \$7,362,106 or 51.2% of the total 2007 General fund expenditures and transfers.

The total long-term debt of the City of Auburn Hills at December 31, 2007 was \$20,153,425 which represents a decrease of \$364,582 from the prior year balance of \$20,518,007. The reduction was attributable to principal payments made on long-term debt in 2007 in the amount of \$1,410,000 which was offset by an increase in Michigan Tax Tribunal (MTT) property tax appeals in the amount of \$1,045,518. The increase in the MTT appeals was due to a substantial increase in the number of new appeal cases and to declining property market values. There were no new debt issuances by the City during 2007.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Auburn Hills' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., multi-year special assessments and other receivables not collected within sixty days of the end of the 2007 fiscal year).

Both of the government-wide financial statements distinguish functions of the City of Auburn Hills that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Auburn Hills include legislative, management and planning, public safety, streets, highways and public improvements, community and economic development, and general support. The business-type activities of the City include the Water and Sewer Departments and Fieldstone Golf Club, a municipal golf course.

The government-wide financial statements include, not only the City itself (known as the primary government), but also includes five legally separate component units for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found as Exhibits A-1 and A-2 of this report.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CITY OF AUBURN HILLS

**Fund Financial Statements.** A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn Hills, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to comply with State and GASB (Government Accounting Standards Board) requirements for governmental accounting. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term ability to meet financial commitments.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn Hills maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, five special revenue funds, and one debt service fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation entitled "Other Non-Major". Individual fund data for each of these non-major governmental funds is provided in the form of combining fund financial statements in this report shown on Exhibits C, D, and E.

The City of Auburn Hills adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibit A-3 and Exhibit A-5 of this report.

**Proprietary Funds.** The City of Auburn Hills utilizes two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the Water Department, Sewer Department and Fieldstone Golf Club municipal golf course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City utilizes internal service funds to account for its fleet of vehicles and equipment and for the accounting of the liability for unused, earned accrued sick and vacation hours. These functions have been allocated to governmental activities and business-type activities in the same proportion as the amount of services these functions provide to the activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Fieldstone Golf Club. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements shown on Exhibits F-1, F-2, and F-3.

The basic proprietary fund financial statements can be found on Exhibits A-7, A-8, and A-9 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of this fund are not available to support the City of Auburn Hills' programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are the Agency fund, the Pension fund, and the Retiree Health Care Trust.

The fiduciary fund financial statements can be found on Exhibit A-10 and Exhibit A-11 of this report.

**Component Units Presentation.** The government-wide financial statements include not only the financial information for the City of Auburn Hills (the primary government), but also five legally separate component units for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government.

The basic component unit financial statements can be found on Exhibit A-12 and Exhibit A-13 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CITY OF AUBURN HILLS

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Exhibit A-14 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Auburn Hills' progress in funding its obligation to provide pension benefits and retiree health care benefits to its employees. In addition, budgetary comparison schedules are provided for all major governmental funds. This information can be found on Exhibit B-3, Exhibit B-4, Exhibit B-5 and Exhibit B-6 of this report.

### Government-Wide Financial Analysis

As stated above, net assets over time may serve as a useful indicator of the City of Auburn Hills' financial position. Assets of the City of Auburn Hills exceeded liabilities by \$177,415,888 at December 31, 2007.

The net assets for the City of Auburn Hills are comprised of \$25,776,886 in assets which are restricted for specific programs and functions, \$121,942,242 investment in capital assets (land, streets, water and sewer mains, etc.) net of any related debt that is still outstanding to purchase or construct these assets, and \$29,696,760 in unrestricted assets. The City utilizes the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the outstanding debt issued to purchase or construct these assets (\$16,895,000) must be provided from other sources since the capital assets cannot be sold to liquidate the outstanding debt.

#### Statement of Net Assets-City of Auburn Hills

(in Millions)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets.....	\$66.7	\$ 65.5	\$21.7	\$ 22.4	\$ 88.4	\$ 87.9
Capital Assets.....	<u>71.3</u>	<u>71.7</u>	<u>67.5</u>	<u>67.0</u>	<u>138.8</u>	<u>138.7</u>
Total Assets.....	138.0	137.2	89.2	89.4	227.2	226.6
Long-Term Liabilities.....	9.5	8.3	12.3	12.3	21.8	20.6
Other Liabilities.....	<u>24.8</u>	<u>24.8</u>	<u>3.2</u>	<u>4.2</u>	<u>28.0</u>	<u>29.0</u>
Total Liabilities.....	34.3	33.1	15.5	16.5	49.8	49.6
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt.....	66.5	66.4	55.4	55.6	121.9	122.0
Restricted.....	25.8	25.9			25.8	25.9
Unrestricted.....	<u>11.4</u>	<u>11.8</u>	<u>18.3</u>	<u>17.3</u>	<u>29.7</u>	<u>29.1</u>
Total Net Assets.....	<u>\$ 103.7</u>	<u>\$ 104.1</u>	<u>\$ 73.7</u>	<u>\$ 72.9</u>	<u>\$ 177.4</u>	<u>\$ 177.0</u>

A portion of the City's net assets, \$25,776,886 or 14.5%, represents resources that are subject to restrictions on how they may be used. The remaining fund balance is composed of the unrestricted net assets in the amount of \$29,696,760 which may be used to meet the government's obligations to citizens and creditors.

At the end of 2007, the City of Auburn Hills is able to report positive balances in both categories of net assets, for the City as a whole, and for the governmental and business-type activities. This was also the case at the end of 2005 and 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CITY OF AUBURN HILLS

The City's total net assets increased \$349,013. This increase is primarily attributable to higher revenues and stable expenses in most departments with the exception of a one-time additional contribution to the Retiree Health Care Trust of \$2.8 million. The decrease in the net assets of the governmental activities was \$405,824 while the business-type activities experienced an increase in total net assets of \$754,837. The following is a summary of the changes in the City's net assets:

<b>Change in Net Assets-City of Auburn Hills</b>						
<b>(in Millions)</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues</b>						
Program Revenues:						
Charges for Services.....	\$ 2.0	\$ 1.9	\$ 12.1	\$ 9.9	\$ 14.1	\$ 11.8
Operating Grants and Contributions.....	1.6	1.4	0.3		1.9	1.4
Capital Grants and Contributions.....	-	0.2	0.7	0.8	0.7	1.0
General Revenues:						
Taxes.....	20.4	22.4	0.5	0.5	20.9	22.9
State Shared Revenue.....	1.6	1.6			1.6	1.6
Use of Money and Investments.....	2.9	3.0	0.9	0.8	3.8	3.8
Other Unrestricted Revenues.....	2.5	2.1	0.5	0.4	3.0	2.5
Total Revenues.....	31.0	32.6	15.0	12.4	46.0	45.0
<b>Expenses</b>						
Legislative.....	0.3	0.2			0.3	0.2
Management and Planning.....	3.5	3.0			3.5	3.0
Public Safety.....	15.6	13.2			15.6	13.2
Streets, Highways, & Improvements.....	4.7	4.6			4.7	4.6
Community & Economic Dev.....	4.4	2.7			4.4	2.7
General Support.....	2.7	8.6			2.7	8.6
Interest on Long-Term Debt.....	0.3	0.2			0.3	0.2
Water.....			6.3	5.6	6.3	5.6
Sewer.....			5.3	5.7	5.3	5.7
Fieldstone Golf Club.....			2.6	2.6	2.6	2.6
Total Expenses.....	31.5	32.5	14.2	13.9	45.7	46.4
Increase (Decrease) in Net Assets before Transfers.....	(0.5)	0.1	0.8	(1.5)	0.3	(1.4)
Transfers.....	0.1	(0.3)	(0.1)	0.3	-	-
Increase (Decrease) in Net Assets.....	\$ (0.4)	\$ (0.2)	\$ 0.7	\$ (1.2)	\$ 0.3	\$ (1.4)

**Governmental Activities.** Governmental activities decreased the net assets of the City of Auburn Hills by \$405,824. The key elements affecting this change are as follows:

The City of Auburn Hills spent a total of \$1,902,206 on purchase or construction of governmental activities capital assets during 2007. In fund accounting methodologies, this amount is a use of current resources and a corresponding reduction in fund balance. GASB-34 provisions require that these assets be capitalized which results in no reduction in total assets. However, the costs of assets are allocated to the fiscal periods benefiting from their acquisition by recording depreciation expense. Recording depreciation expense reduced total assets by \$2,669,492.

The City made total long-term debt principal repayments totaling \$525,000. In fund accounting, this type of payment is recorded as an expenditure reducing net assets.

Recurring tax revenues increased by \$565,264 or 2.7% in 2007; however, total tax revenues in 2007 show a decline from 2006 of approximately \$2.1 million due to a tax abatement for \$1,287,262 which was accrued as revenue in 2006 and subsequently treated as uncollectible in 2007.

Interest income from investments in 2007 was \$2,955,106 which was a decrease of \$83,588 from the prior year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CITY OF AUBURN HILLS

**Business-Type Activities.** Business-type activities increased the City of Auburn Hills' net assets \$754,837. Key elements of this increase are as follows:

The Water Department incurred an operating loss in the amount of \$1,535,341 while the Sewer Department had net operating income of \$440,873 in 2007. Non-operating revenues and capital contributions provided additional revenues of \$448,688 and \$1,389,105 respectively to the Water and Sewer Departments. The operating loss in the Water Department resulted from service charges being insufficient to cover the direct operating costs of providing these services. In order to eliminate the shortfall in the current year's activity for the Water Department, a transfer for \$1,300,000 was made to Water from the Sewer Department. After including all sources of revenues, the Water Department experienced an increase in its net assets of \$245,873.

The Fieldstone Golf Club fund had an operating loss of \$58,174 and an additional \$634,150 in net non-operating income (expenses), capital contributions, and transfers-in which in total resulted in an increase in net assets of \$575,976.

### **Financial Analysis of the Government's Funds**

As stated previously, the City of Auburn Hills uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City of Auburn Hills' governmental funds is to provide information on near-term inflows, outflows, and balances of resources available. Such information is useful in assessing the City's financing requirements and ability to meet financial demands as they occur. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the City of Auburn Hills' governmental funds reported combined fund balances of \$31,113,142, an increase of \$2,689,862 or 9.5% from the 2006 fund balances. Except for \$19,987, the entire fund balance constitutes an unreserved fund balance which is available for spending at the government's discretion.

The General fund is the chief operating fund of the City of Auburn Hills. At the end of the current fiscal year, the unreserved fund balance of the General fund was \$7,362,106. The unreserved fund balance represents 51.2% of total General fund expenditures.

After comparing the General fund balance to the balance as of December 31, 2006, the fund balance of the City of Auburn Hills' General fund increased by \$1,591,861. The key factors in this increase are as follows:

The increase is primarily attributable to an increase in fund revenues. General fund revenues in 2007 increased by \$1,699,283 or 11.9% over the prior year. Revenue increases occurred primarily in the following five categories: tax revenues (\$852,563), service charges (\$169,714), state sources (\$104,495), interfund charges (\$561,579), and other revenues (\$167,966). Interest revenues from investments experienced a decrease from the prior year of \$218,167.

The expenses in the General fund increased by \$1,594,977 or 12.5% over the prior year. The majority of the increase (\$791,835) was due to the assignment of the management staff associated with the Public Service Department into the General fund. These reassigned expenses are charged to the specific departments and/or funds using their services; thus, there was an offsetting increase in revenues as well. Expenses also increased in the Assessor Department's legal and consulting fees to handle increased activity associated with MTT appeals. The Parks and Grounds Department experienced an increase due to a one-time retroactive billing in the amount of \$442,418 from the City's Water Department to correct billings from previous years. After excluding internal expense increases from other City funds, the net increase was \$360,724 or 2.8% over the prior year.

The fund balances in all other City governmental funds increased by \$1,098,001, from \$22,633,048 to \$23,731,049, an increase of 4.9%. With the exception of a decrease in tax revenues of \$460,632 (primarily attributable to the expiration of the library expansion debt millage), the revenues of the other City governmental funds increased by only \$18,806 over the 2006 fiscal year. The Police fund with revenues of \$13,748,509 and the Fire fund with revenues of \$3,922,861 accounted for 83.0% of the other City governmental funds' revenues.

Expenses in other governmental funds decreased by \$718,578 in 2007. All funds had modest increases or decreases in expenses from the prior year with the exception of the Police, Retiree Health Care, and the Street Improvement funds. In 2006, the City established a Retiree Health Care Trust (RHCT) which reported an expense transfer of approximately \$3.4 million from the Retiree Health Care fund. In the current year, the Retiree Health Care fund has expenses of \$1,060,714 or approximately \$2.3 million less. Also, several significant street improvement projects were completed in 2006 resulting in expenses of \$3,142,396 which were \$2.1 million greater than the \$1,017,019 of expenses incurred in 2007. The Police fund expenses in 2007 of \$13,681,826 increased by \$3,665,513. The majority of this increase was due to a one-time additional contribution to the Retiree Health Care Trust of \$2.8 million. The Police fund also includes expenses of approximately \$294,000 related to retroactive pay due to a new bargaining unit agreement for Patrol and Service Officers.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CITY OF AUBURN HILLS

**Proprietary Funds.** The City of Auburn Hill's proprietary funds provide the same type of information found in the business-type activities portion of the government-wide financial statements.

Unrestricted net assets in the proprietary funds increased a total of \$1,039,772.

The Water fund incurred an operating loss in the amount of \$1,535,341 while the Sewer fund had operating income of \$440,873. The Water fund's operating loss is the result of service charges for water not covering the direct operating costs of providing the services. The Water fund's total change in net assets was improved to a loss of \$1,086,653 with additional revenues from non-operating sources and non-cash capital contributions from developers in 2007. Fieldstone Golf Club had an operating loss of \$58,174.

### General Fund Budgetary Highlights

The General fund exceeded its 2007 revenue budget by \$1,871,631 or 13.3%. The General Fund's departments were unfavorable to their collective budgets by \$88,291 or .6%. The actual expenses exceeded budget due to an unbudgeted property acquisition for approximately \$196,300 and an unbudgeted correction in the City's water billings to the Parks and Grounds Department of \$442,000 for several prior years.

### Capital Asset and Debt Administration

**Capital Assets.** The City of Auburn Hills' investment in capital assets for its governmental and business type activities as of December 31, 2007, amounts to \$121,942,242 (net of accumulated depreciation and related debt). This investment in capital assets includes water and sewer mains, office furniture and equipment, machinery and equipment, vehicles, buildings and improvements, roads, and storm drains.

Additional information regarding the City's capital assets can be found on Note E in Exhibit A-14 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Auburn Hills had total debt outstanding of \$20,153,425. The issues included \$575,000 of general obligation limited tax bond issues and \$3,258,425 of MTT property tax appeals.

Total indebtedness of the City decreased \$364,582 from \$20,518,007 to \$20,153,425. This decrease resulted from principal payments of \$1,410,000 on outstanding bonds and other installment loans and a net increase in the MTT property tax appeals of \$1,045,418. There was no new debt issued by the City in 2007.

The City has an A+ and A rating from Standard & Poor's Corporation and an A1 and A2 rating from Moody's Investors Service on general obligations unlimited tax bond issues and on issues with tax limitations, respectively.

The City debt limit, as defined by statute, is ten percent (10%) of equalized property values or \$284,981,310. Total City long-term debt was \$20,153,425 at December 31, 2007. Of this amount, \$12,745,000 is subject to the debt limit. The City is currently utilizing only 4.5% of its total debt capacity per state statute.

Additional information on the City of Auburn Hills' long-term debt can be found on Note F of Exhibit A-14 of this report.

### Economic Factors and Next Year's Budgets and Rates

The City expects to see reduced funding from the State of Michigan due to continuing budget problems at the State level.

The City continues to experience increases in the cost of pension contributions and medical insurance rates due to a higher number of participants and the increasing costs of medical care respectively. These factors were considered in the 2008 budget process as well as in negotiations with union bargaining groups of the City.

The approved 2008 City of Auburn Hills budget projected the General fund balance to decrease by \$1,651,408 in 2008.

### Request for Information

This financial report is designed to provide a general overview of the City of Auburn Hills' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Auburn Hills, 1827 N. Squirrel Rd., Auburn Hills, Michigan 48326.

# **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-1**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>ASSETS</b>				
Cash and investments (Notes C and M).....	\$ 35,909,512	\$ 19,466,220	\$ 55,375,732	\$ 19,176,934
Receivables:				
Due from other governmental units.....	955,882	87,111	1,042,993	
Taxes.....	21,473,530		21,473,530	5,094,273
Accounts.....	610,381	1,870,408	2,480,789	
Special Assessments.....	4,102,957	1,330	4,104,287	
Accrued interest.....	58,222	56,455	114,677	4,603
Prepayments.....	19,987		19,987	
Inventories.....		158,136	158,136	
Capital assets (net of accumulated depreciation Notes E and M)				
Depreciable assets:				
Water and sewer mains.....		48,986,655	48,986,655	
Office furniture & equipment.....	36,347		36,347	150,631
Machinery & equipment.....	912,649	431,112	1,343,761	
Vehicles.....	1,122,735	385,120	1,507,855	
Buildings & improvements.....	12,118,785	7,817,715	19,936,500	18,172,870
Roads.....	46,685,970		46,685,970	16,919,114
Storm drains.....	5,176,115		5,176,115	
Land Improvements.....				1,815,431
Non-depreciable assets:				
Land.....	5,212,971	8,403,717	13,616,688	7,460,866
Construction in progress.....				880,448
Unamortized discount & issuance costs.....		1,547,351	1,547,351	
Pension Asset (Note I).....	3,628,420		3,628,420	
<b>TOTAL ASSETS</b>	<b>138,024,463</b>	<b>89,211,330</b>	<b>227,235,793</b>	<b>69,675,170</b>
<b>LIABILITIES</b>				
Accounts Payable.....	1,442,833	2,846,989	4,289,822	77,963
Accrued payroll and other liabilities.....	376,003		376,003	
Retainages payable.....	69,169		69,169	90,620
Due to other governmental units.....	25		25	4,368,583
Deposits payable.....	1,397,795		1,397,795	
Unearned revenue (Note D).....	21,473,530		21,473,530	5,095,873
Accrued interest payable.....	60,394		60,394	
Other liabilities.....		379,237	379,237	
Non-current liabilities:				
Current portion of long-term debt (Note F)...	550,000	790,000	1,340,000	
Long-term debt (net of current portion) (Note F and Note M).....	7,433,425	11,380,000	18,813,425	2,063,993
Compensated Absences.....	1,514,258	106,247	1,620,505	
<b>TOTAL LIABILITIES</b>	<b>34,317,432</b>	<b>15,502,473</b>	<b>49,819,905</b>	<b>11,697,032</b>
<b>NET ASSETS</b>				
Invested in cap. assets (net of related debt).....	66,540,572	55,401,670	121,942,242	43,336,830
Restricted assets (Note B)				
Police Fund.....	18,033,265		18,033,265	
Brown Road Special Assessment Fund.....	4,380,448		4,380,448	
Other funds.....	3,363,173		3,363,173	14,641,308
Unrestricted.....	11,389,573	18,307,187	29,696,760	
<b>TOTAL NET ASSETS</b>	<b>\$ 103,707,031</b>	<b>\$ 73,708,857</b>	<b>\$ 177,415,888</b>	<b>\$ 57,978,138</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement



**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Legislative.....	\$ 268,232	\$	\$	\$
Management and planning.....	3,476,100	69,930		
Public safety.....	15,573,656	744,577	12,402	
Streets, highways, & public improvements.....	4,725,242		1,365,770	
Community and economic development.....	4,401,313	1,162,546	177,205	
General support.....	2,741,139			
Interest on long-term debt.....	329,491			
<b>Total Governmental Activities</b>	<b>31,515,173</b>	<b>1,977,053</b>	<b>1,555,377</b>	<b>0</b>
Business-type activities:				
Water.....	6,302,403	4,802,720		242,645
Sewer.....	5,295,165	5,429,292	306,746	424,706
Fieldstone Golf Club.....	2,582,591	1,920,219		
<b>Total Business-Type Activities</b>	<b>14,180,159</b>	<b>12,152,231</b>	<b>306,746</b>	<b>667,351</b>
<b>Total Primary Government</b>	<b>\$ 45,695,332</b>	<b>\$ 14,129,284</b>	<b>\$ 1,862,123</b>	<b>\$ 667,351</b>
Component units:				
TIFA 85-A.....	\$ 658,493			
TIFA 85-B.....	109,361			
TIFA 86-D.....	656,744			
Brownfield Authority.....	494,029			
Economic Development Corporation.....	0			
<b>Total Component Units</b>	<b>\$ 1,918,627</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Component Units</u>
	\$ (268,232)		\$ (268,232)	
	(3,406,170)		(3,406,170)	
	(14,816,677)		(14,816,677)	
	(3,359,472)		(3,359,472)	
	(3,061,562)		(3,061,562)	
	(2,741,139)		(2,741,139)	
	(329,491)		(329,491)	
	<u>(27,982,743)</u>		<u>(27,982,743)</u>	
		\$ (1,257,038)	(1,257,038)	
		865,579	865,579	
		<u>(662,372)</u>	<u>(662,372)</u>	
	<u>0</u>	<u>(1,053,831)</u>	<u>(1,053,831)</u>	
	<u>(27,982,743)</u>	<u>(1,053,831)</u>	<u>(29,036,574)</u>	
				\$ (658,493)
				(109,361)
				(656,744)
				(494,029)
				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,918,627)</u>
General Revenues:				
Taxes.....	20,379,915	500,325	20,880,240	7,097,580
State shared revenues.....	1,577,479		1,577,479	
Use of money and investments.....	2,955,106	857,019	3,812,125	782,762
Other general revenues:				
Franchise fees.....	238,064		238,064	
Cellular lease.....	87,876		87,876	
Other revenues.....	2,239,215	550,588	2,789,803	
Estimated Michigan tax tribunal expenses.....				(212,623)
Transfers.....	99,264	(99,264)	0	
<b>Total General Revenues and Transfers</b>	<u>27,576,919</u>	<u>1,808,668</u>	<u>29,385,587</u>	<u>7,667,719</u>
Change in net assets.....	(405,824)	754,837	349,013	5,749,092
Net assets-beginning Balance.....	<u>104,112,855</u>	<u>72,954,020</u>	<u>177,066,875</u>	<u>52,229,046</u>
<b>Net Assets-ending.....</b>	<u>\$ 103,707,031</u>	<u>\$ 73,708,857</u>	<u>\$ 177,415,888</u>	<u>\$ 57,978,138</u>

**BALANCE SHEET-GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-3**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Street Improvement</u>
<b><u>ASSETS</u></b>				
Cash and investments (Note C).....	\$ 8,761,286	\$ 712,382	\$ 489,151	\$ 348,407
Receivables:				
Due from other governmental units.....	539,194	136,472	43,257	
Taxes.....	5,455,608			
Due from other funds (Note G).....	250,000			
Accrued Interest.....	5,034			
Accounts.....	112,737			
Special Assessments.....	50,787			
Prepays.....	19,987			
<b>TOTAL ASSETS</b>	<b>\$ 15,194,633</b>	<b>\$ 848,854</b>	<b>\$ 532,408</b>	<b>\$ 348,407</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts Payable.....	\$ 809,377	\$ 166,763	\$ 15,519	\$ 30,557
Accrued payroll and other liabilities.....	106,392	10,256	6,410	
Retainages Payable.....			1,620	67,549
Due to other governmental units.....				
Due to other funds (Note G).....	579,786	20,945	18,699	
Deposits payable.....	772,626	246,309	255,996	
Deferred revenue (Note D).....	5,544,359			
<b>TOTAL LIABILITIES</b>	<b>7,812,540</b>	<b>444,273</b>	<b>298,244</b>	<b>98,106</b>
<b><u>FUND BALANCES</u></b>				
Fund balances-Reserved for:				
Prepayments.....	19,987			
Fund balances-Unreserved:				
Undesignated:				
Reported in general fund.....	7,362,106			
Reported in special revenue funds.....		404,581	234,164	
Reported in debt service funds.....				
Reported in capital project funds.....				250,301
<b>TOTAL FUND BALANCES</b>	<b>7,382,093</b>	<b>404,581</b>	<b>234,164</b>	<b>250,301</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 15,194,633</b>	<b>\$ 848,854</b>	<b>\$ 532,408</b>	<b>\$ 348,407</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>Police</u>	<u>Fire</u>	<u>Brown Road Debt - Special Assessment</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
\$ 18,945,309	\$ 2,900,239	\$ 328,278	\$ 2,053,414	\$ 34,538,466
			236,959	955,882
12,377,647	3,640,275			21,473,530
			27,067	277,067
53,188				58,222
154,792	12,516		78,805	358,850
		4,052,170		4,102,957
				19,987
<u>\$ 31,530,936</u>	<u>\$ 6,553,030</u>	<u>\$ 4,380,448</u>	<u>\$ 2,396,245</u>	<u>\$ 61,784,961</u>
\$ 175,452	\$ 30,379		\$ 94,700	\$ 1,322,747
183,533	64,323		1,439	372,353
				69,169
25				25
682,235	195,504		15,788	1,512,957
	7,304		115,560	1,397,795
12,456,427	3,650,891	\$ 4,052,170	292,926	25,996,773
13,497,672	3,948,401	4,052,170	520,413	30,671,819
				19,987
				7,362,106
18,033,265	2,604,628		1,434,094	22,710,732
		328,278		328,278
			441,738	692,039
<u>18,033,265</u>	<u>2,604,628</u>	<u>328,278</u>	<u>1,875,832</u>	<u>31,113,142</u>
<u>\$ 31,530,937</u>	<u>\$ 6,553,029</u>	<u>\$ 4,380,448</u>	<u>\$ 2,396,245</u>	<u>\$ 61,784,961</u>

# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS DECEMBER 31, 2007

## CITY OF AUBURN HILLS

## Exhibit A-4

Total fund balances of governmental funds (See Exhibit A-3) \$ 31,113,142

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Office furniture & equipment.....	\$ 36,347	
Machinery & equipment.....	912,649	
Vehicles.....	1,122,735	
Buildings & improvements.....	12,118,785	
Land & improvements.....	5,212,971	
Streets.....	46,685,970	
Storm drains.....	5,176,115	71,265,572

Allocation of Internal Service Funds to Governmental activities:

Fleet Management (exclusive of Fleet Management capital assets)....	1,220,474
---	-----------

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the funds.

Governmental obligation loans payable.....	\$ (4,725,000)	
Accrued interest payable.....	(60,394)	
Tax tribunal cases.....	<u>(3,258,425)</u>	(8,043,819)

Other long-term assets are not available to pay for current period  
expenditures and therefore are not reported in the funds.

Special assessments receivable.....	\$ 4,052,170	
Accounts receivable - abatement recoveries .....	64,075	
Police and Fire Departments receivables for fines and services .....	400,170	
Grant receivables.....	<u>6,827</u>	4,523,242

Record Pension Asset.....	<u>3,628,420</u>
---------------------------	------------------

Net assets of governmental activities \$ 103,707,031

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND  
BALANCES-GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-5**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>
<b><u>REVENUE</u></b>			
Property taxes.....	\$ 6,142,851		
Special assessments.....			
Licenses and permits.....	584,948		
Charges for services.....	590,061		
Fines and forfeitures.....			
Federal sources.....			
State sources.....	1,688,646	\$ 938,763	\$ 286,909
Use of money and property.....	1,781,277	37,907	20,268
Administrative and interfund charges.....	4,251,468		
Other.....	920,907		15,914
<b>TOTAL REVENUE</b>	<b>15,960,158</b>	<b>976,670</b>	<b>323,091</b>
<b><u>EXPENDITURES</u></b>			
Current operations:			
Legislative.....	268,232		
Management and planning.....	4,680,094		
Public safety.....			
Streets, highways, & public improvements.....	366,250	999,893	987,078
Community and economic development.....	2,423,002		
General support.....	3,315,791		
Capital outlay.....	497,261		
Debt service:			
MTT refunds.....	56,983		
Principal payments.....			
Interest.....			
<b>TOTAL EXPENDITURES</b>	<b>11,607,613</b>	<b>999,893</b>	<b>987,078</b>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<b>4,352,545</b>	<b>(23,223)</b>	<b>(663,987)</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
General fund transfers.....	(2,760,684)	300,000	900,000
Transfers out to other funds.....		(65,052)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,760,684)</b>	<b>234,948</b>	<b>900,000</b>
<b>REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>1,591,861</b>	<b>211,725</b>	<b>236,013</b>
Fund balance at beginning of year.....	5,790,232	192,856	(1,849)
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 7,382,093</b>	<b>\$ 404,581</b>	<b>\$ 234,164</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>Street Improvement</u>	<u>Police</u>	<u>Fire</u>	<u>Brown Road Debt - Special Assessment</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	\$ 11,996,088	\$ 3,528,049		\$ 188	\$ 21,667,176
			\$ 539,830		539,830
	11,000				595,948
	528,867	215,321		1,080,021	2,414,270
	173,528				173,528
				66,038	66,038
	57,770			153,711	3,125,799
\$ 23,247	961,175	155,221	293,559	98,922	3,371,576
					4,251,468
	20,081	24,270		55,477	1,036,649
<u>23,247</u>	<u>13,748,509</u>	<u>3,922,861</u>	<u>833,389</u>	<u>1,454,357</u>	<u>37,242,282</u>
				4,911	273,143
				419,346	5,099,440
	13,458,919	3,593,220		635,171	17,687,310
			275	260,149	2,613,645
				212,242	2,635,244
				49,503	3,365,294
1,017,019	59,196	4,618		325,734	1,903,828
	163,711	48,147		4,816	273,657
			475,000	50,000	525,000
			240,500	34,625	275,125
<u>1,017,019</u>	<u>13,681,826</u>	<u>3,645,985</u>	<u>715,775</u>	<u>1,996,497</u>	<u>34,651,686</u>
<u>(993,772)</u>	<u>66,683</u>	<u>276,876</u>	<u>117,614</u>	<u>(542,140)</u>	<u>2,590,596</u>
1,250,000				475,000	164,316
					(65,052)
<u>1,250,000</u>				<u>475,000</u>	<u>99,264</u>
256,228	66,683	276,876	117,614	(67,140)	2,689,860
<u>(5,927)</u>	<u>17,966,582</u>	<u>2,327,752</u>	<u>210,664</u>	<u>1,942,972</u>	<u>28,423,282</u>
<u>\$ 250,301</u>	<u>\$ 18,033,265</u>	<u>\$ 2,604,628</u>	<u>\$ 328,278</u>	<u>\$ 1,875,832</u>	<u>\$ 31,113,142</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007  
CITY OF AUBURN HILLS**

**Exhibit A-6**

Net change in fund balance-total governmental funds (See Exhibit A-5) \$ 2,689,860

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement  
of Activities the cost of assets is allocated over their useful lives and reported as  
depreciation expense. Details of the adjustments are:

Capital outlay (less Internal Service additions of \$812,492)..... 1,902,206

Depreciation expense (less Internal Service depreciation expense of \$431,538)..... (2,669,492)

The payment of principal on long-term debt consumes current financial resources of the  
of the governmental funds. However, on the Statement of Net Assets, repayment of  
principal is recorded as a reduction to long-term debt payable and does not have  
any effect on net assets.

Long-term debt principal repayment..... 525,000

Change in interest expense on debt..... (54,366)

The activities of the internal service funds are considered part of the governmental  
activities on the Government-Wide Statements but are not reported in the  
governmental funds.....

283,299

Increase in liability for the MTT Appeals..... (1,045,418)

Revenues in the statement of activities that do not provide current financial resources (deferred  
revenues) are not reported as revenues in the funds..... (1,863,773)

Pension asset change reported in the Statement of Activates does not provide current  
financial resources and therefore is not reported as in the governmental funds..... (173,140)

Change in net assets of governmental activities \$ (405,824)

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement



**STATEMENT OF NET ASSETS -- PROPRIETARY FUNDS**  
**DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-7**

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Sewer</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash and investments (Note C).....		\$ 18,663,061
Receivables:		
Accounts.....	\$ 1,099,740	770,668
Special assessments.....	665	665
Due from State.....		87,111
Due from other funds (Note G).....	563,816	1,700,170
Accrued interest.....		56,455
Inventories.....	113,127	
<b>TOTAL CURRENT ASSETS</b>	<b>1,777,348</b>	<b>21,278,130</b>
<b><u>LAND, BUILDINGS AND EQUIPMENT</u></b>		
Water and sewer mains.....	29,508,820	31,199,664
Land and improvements.....		6,221
Facilities.....	2,240,710	
Vehicles.....		
Other equipment.....	2,250,859	211,660
<b>TOTAL CAPITAL ASSETS</b>	<b>34,000,389</b>	<b>31,417,545</b>
Less: Allowance for depreciation.....	6,607,747	7,393,789
<b>TOTAL CAPITAL ASSETS NET OF DEPRECIATION</b>	<b>27,392,642</b>	<b>24,023,756</b>
Other non-current assets - unamortized discount & bond issuance costs.....		
<b>TOTAL FOR NON-CURRENT ASSETS</b>	<b>27,392,642</b>	<b>24,023,756</b>
<b>TOTAL ASSETS</b>	<b>29,169,990</b>	<b>45,301,886</b>
<b><u>CURRENT LIABILITIES</u></b>		
Current portion of long-term debt.....		
Accounts payable.....	1,725,119	1,008,636
Due to other funds (Note G).....	61,052	15,833
Other liabilities.....	15,689	12,037
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,801,860</b>	<b>1,036,506</b>
LONG TERM DEBT-Net of current portion.....		
<b>TOTAL LIABILITIES</b>	<b>1,801,860</b>	<b>1,036,506</b>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets net of related debt.....	27,392,642	24,023,756
Unrestricted.....	(24,512)	20,241,624
<b>TOTAL NET ASSETS</b>	<b>\$ 27,368,130</b>	<b>\$ 44,265,380</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Enterprise Funds			
	Fieldstone Golf Club	Total	Internal Service
	\$ 289,346	\$ 18,952,407	\$ 1,884,860
		1,870,408	
		1,330	
		87,111	
		2,263,986	1,620,505
		56,455	
	45,008	158,135	
	334,354	23,389,832	3,505,365
		60,708,484	
	8,397,496	8,403,717	
	7,880,085	10,120,795	
	22,510	2,485,029	4,179,303
			1,049,219
	16,300,091	81,718,025	5,228,522
	2,154,924	16,156,460	3,530,958
	14,145,167	65,561,565	1,697,564
	1,547,351	1,547,351	
	15,692,518	67,108,916	
	16,026,872	90,498,748	5,202,929
	790,000	790,000	
	68,231	2,801,986	165,091
	2,534,821	2,611,706	36,895
	98,614	126,340	1,625,521
	3,491,666	6,330,032	1,827,507
	11,380,000	11,380,000	
	14,871,666	17,710,032	1,827,507
	3,522,518	54,938,916	1,697,564
	(2,367,312)	17,849,800	1,677,858
	\$ 1,155,206	72,788,716	\$ 3,375,422
Amounts reported for business-type activities in the statement of net assets are different because:			
Allocation of internal service fund (Fleet Management fund) to business-type activities.....			
		920,140	
Net assets of business-type activities		\$ 73,708,856	

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS -- PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-8**

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Sewer</u>
<b><u>OPERATING REVENUE</u></b>		
Water charges.....	\$ 4,370,432	
Sewer charges.....		\$ 3,941,151
Hydrant and equipment rental.....	183,073	
Water connection charges.....	70,043	
State Grants.....		306,746
Vehicle rental fees.....		
Green fees.....		
Practice range fees.....		
Merchandise sales.....		
Food & beverage sales.....		
Other operating income.....	179,172	1,488,141
<b>TOTAL OPERATING REVENUE</b>	<b>4,802,720</b>	<b>5,736,038</b>
<b><u>OPERATING EXPENSES</u></b>		
Salaries and wages.....	387,655	127,444
Fringe benefits.....	252,059	70,247
Supplies.....	101,341	18,357
Contracted services.....	453,825	238,741
Other operating expenses.....	341,465	581,452
Administrative charges.....	685,367	617,970
Cost of water and sewage disposal.....	3,377,885	3,046,526
Depreciation and amortization.....	738,464	594,428
<b>TOTAL OPERATING EXPENSES</b>	<b>6,338,061</b>	<b>5,295,165</b>
<b>TOTAL OPERATING INCOME (LOSS)</b>	<b>(1,535,341)</b>	<b>440,873</b>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Interest earned.....	22,918	781,274
Interest expense.....		
Property taxes.....		
Other income.....	183,125	183,125
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>206,043</b>	<b>964,399</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS &amp; CAPITAL CONTRIBUTIONS</b>	<b>(1,329,298)</b>	<b>1,405,272</b>
<b><u>CAPITAL CONTRIBUTIONS</u></b>		
Capital and lateral charges.....	83,040	371,100
Developer contributions.....	159,605	53,606
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>242,645</b>	<b>424,706</b>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<b>(1,086,653)</b>	<b>1,829,978</b>
<b><u>OPERATING TRANSFERS</u></b>		
Transfers-in/(out).....	1,332,526	(2,003,158)
<b>TOTAL OPERATING TRANSFERS</b>	<b>1,332,526</b>	<b>(2,003,158)</b>
<b>CHANGE IN NET ASSETS</b>	<b>245,873</b>	<b>(173,180)</b>
Net assets-beginning of year.....	27,122,257	44,438,560
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 27,368,130</b>	<b>\$ 44,265,380</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Enterprise Funds			
	Fieldstone Golf Club	Total	Internal Service
		\$ 4,370,432	
		3,941,151	
		183,073	\$ 1,224,731
		70,043	
		306,746	
			725,415
\$ 1,272,911	1,272,911		
65,025	65,025		
111,974	111,974		
466,298	466,298		
4,011	1,671,324		153,070
1,920,219	12,458,977		2,103,216
	390,642	905,741	328,022
	107,388	429,694	157,312
	26,588	146,286	418,613
	584,355	1,276,921	118,759
	435,418	1,358,335	356,443
		1,303,337	
		6,424,411	
	434,002	1,766,894	593,261
	1,978,393	13,611,619	1,972,410
	(58,174)	(1,152,642)	130,806
	24,688	828,880	103,226
	(604,198)	(604,198)	
	500,325	500,325	
	141,967	508,217	155,433
	62,782	1,233,224	258,659
	4,608	80,582	389,465
		454,140	
		213,211	
	0	667,351	0
	4,608	747,933	389,465
	571,368	(99,264)	0
	571,368	(99,264)	0
	575,976	648,669	389,465
	579,230		2,985,957
\$ 1,155,206			\$ 3,375,422

Amounts reported for business-type activities in the statement of activities are different because the business-type activities of the internal service fund have been added to these activities.....

106,168

Change in net assets of business-type activities

\$ 754,837

**STATEMENT OF CASH FLOWS -- PROPRIETARY FUNDS**  
**DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-9**

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Sewer</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash received from customers.....	\$ 3,956,471	\$ 3,972,605
Cash payments for goods and services.....	(4,176,078)	(3,282,117)
Cash payments to employees.....	(706,458)	(283,063)
Other operating expenses.....	(1,108,092)	(1,199,421)
Other operating income.....	432,286	1,794,887
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>(1,601,871)</b>	<b>1,002,891</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>		
Operating transfers in/(out) .....	1,332,526	(2,003,158)
Other nonoperating receipts.....	342,730	236,731
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,675,256</b>	<b>(1,766,427)</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Principal paid on long term debt.....		
Interest paid on long term debt.....		
Capital and lateral charges.....	83,040	371,100
Purchase of capital assets.....	(179,343)	(271,872)
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(96,303)</b>	<b>99,228</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest received on investments.....	22,918	755,143
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>22,918</b>	<b>755,143</b>
Net increase (decrease) in cash and cash equivalents.....	0	90,835
Cash and cash equivalents-Beginning of year.....	0	18,572,226
Cash and cash equivalents-end of year.....	<u>\$ 0</u>	<u>\$ 18,663,061</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss).....	\$ (1,535,341)	\$ 440,873
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Depreciation and amortization expense.....	738,464	594,428
Decrease (increase) in due from other funds.....		
Decrease (increase) in accounts receivable.....	(419,534)	29,471
Decrease (increase) in special assessments receivable.....	5,573	1,983
Decrease (increase) in inventory.....	(81,261)	0
Increase (decrease) in accounts payable.....	(243,027)	21,508
Increase (decrease) in due to other funds.....	(3,124)	(95,144)
Increase (decrease) in accrued payroll and other liabilities.....	(63,621)	9,772
Total Adjustments.....	(66,530)	562,018
Net cash provided by (used in) operating activities.....	<u>\$ (1,601,871)</u>	<u>\$ 1,002,891</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:**

During the year ended December 31, 2007, developers contributed \$213,211 of mains to the City, of which \$159,605 were water mains while the remaining \$53,606 were sewer mains.

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Enterprise Funds		
Fieldstone Golf Club	Total	Internal Service
\$ 1,916,208	\$ 9,845,284	\$ 1,950,146
(684,848)	(8,143,043)	(419,222)
(493,385)	(1,482,906)	(331,215)
(445,521)	(2,753,034)	(356,443)
4,011	2,231,184	
296,465	(302,515)	843,266
821,368	150,736	
488,253	1,067,714	155,433
1,309,621	1,218,450	155,433
(885,000)	(885,000)	
(610,468)	(610,468)	
	454,140	
	(451,215)	(1,113,091)
(1,495,468)	(1,492,543)	(1,113,091)
24,688	802,749	103,226
24,688	802,749	103,226
135,306	226,141	(11,166)
0	18,572,226	1,896,026
\$ 135,306	\$ 18,798,367	\$ 1,884,860
\$ (58,174)	\$ (1,152,642)	\$ 130,806
434,002	1,766,894	593,261
	(390,063)	(153,070)
	7,556	
(10,103)	(91,364)	
(73,906)	(295,425)	118,150
	(98,268)	1,046
4,646	(49,203)	153,073
354,639	850,127	712,460
\$ 296,465	\$ (302,515)	\$ 843,266

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-10**

	<u>Agency Fund</u>	<u>Retiree Health Care Trust Fund</u>	<u>Pension Trust Fund</u>
<b><u>ASSETS</u></b>			
Cash (Note C).....	\$ 21,682,531	\$ 329,932	\$ 668,020
Receivables:			
Accrued interest and dividends.....		10,816	2,718
Investments at fair value:			
Mutual funds.....		6,572,957	28,639,326
<b>TOTAL ASSETS</b>	<u>21,682,531</u>	<u>6,913,705</u>	<u>29,310,064</u>
<b><u>LIABILITIES</u></b>			
Undistributed tax collections.....	21,682,531		
<b>TOTAL LIABILITIES</b>	<u>21,682,531</u>	<u>0</u>	<u>0</u>
<b><u>NET ASSETS</u></b>			
Held in trust for pension benefits and other purposes.....	<u>\$ 0</u>	<u>\$ 6,913,705</u>	<u>\$ 29,310,064</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-11**

	<b>Retiree Health Care Trust Fund</b>	<b>Pension Trust Fund</b>
<b><u>ADDITIONS</u></b>		
Contributions:		
Employer.....	\$ 3,355,000	\$ 1,563,587
Plan Members.....		241,868
<b>TOTAL CONTRIBUTIONS</b>	<u>3,355,000</u>	<u>1,805,455</u>
Investment earnings:		
Net increase in fair value of investments.....	32,770	630,616
Interest.....	77,276	487,593
Dividends.....	297,798	749,668
<b>TOTAL INVESTMENT EARNINGS</b>	<u>407,844</u>	<u>1,867,877</u>
Less: investment expenses.....	<u>(6,135)</u>	<u>(106,172)</u>
<b>NET INVESTMENT EARNINGS</b>	<u>401,709</u>	<u>1,761,705</u>
<b>TOTAL ADDITIONS</b>	<u>3,756,709</u>	<u>3,567,160</u>
<b><u>DEDUCTIONS</u></b>		
Pension benefits.....		1,072,006
<b>TOTAL DEDUCTIONS</b>	<u>0</u>	<u>1,072,006</u>
<b>CHANGE IN NET ASSETS</b>	<u>3,756,709</u>	<u>2,495,154</u>
Net assets-beginning of the year.....	<u>3,156,996</u>	<u>26,814,910</u>
<b>NET ASSETS-END OF THE YEAR</b>	<u><u>\$ 6,913,705</u></u>	<u><u>\$ 29,310,064</u></u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement



**STATEMENT OF NET ASSETS -- COMPONENT UNITS**  
**DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-12**

	<u>TIFA 85-A</u>	<u>TIFA 85-B</u>
<b><u>ASSETS</u></b>		
Cash and investments (Note M).....	\$ 7,184,038	\$ 5,451,687
Receivables:		
Taxes.....	911,318	1,364,546
Accrued Interest.....	2,946	1,657
Land (Note M).....	5,443,655	
Land Improvements (Note M).....	1,488,191	296,948
Buildings & Improvements (Note M).....		
Office Equipment and Furniture.....		
Construction in progress (Note M).....		74,311
Roads and other infrastructure (Note M).....	14,249,358	1,852,205
<b>TOTAL ASSETS</b>	<b>29,279,506</b>	<b>9,041,354</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts payable.....	3,733	547
Retainages payable.....	27,290	18,734
Due to other governmental units.....	3,240,343	1,094,474
Unearned revenue.....	911,318	1,364,546
Long-term debt (Note M).....	74,749	295,349
<b>TOTAL LIABILITIES</b>	<b>4,257,433</b>	<b>2,773,650</b>
<b><u>NET ASSETS</u></b>		
Investment in capital assets-net of related debt.....	21,106,455	1,928,115
Restricted for programs.....	3,915,618	4,339,589
<b>TOTAL NET ASSETS</b>	<b>\$ 25,022,073</b>	<b>\$ 6,267,704</b>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>TIFA 86-D</u>	<u>Brownfield Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ 4,810,957	\$ 1,720,137	\$ 10,115	\$ 19,176,934
2,253,129	565,280		5,094,273
			4,603
2,017,211			7,460,866
30,292			1,815,431
18,172,870			18,172,870
150,631			150,631
806,137			880,448
817,551			16,919,114
<u>29,058,778</u>	<u>2,285,417</u>	<u>10,115</u>	<u>69,675,170</u>
73,683			77,963
44,596			90,620
33,766			4,368,583
2,253,129	565,280	1,600	5,095,873
1,692,432	1,463		2,063,993
4,097,606	566,743	1,600	11,697,032
20,302,260			43,336,830
4,658,912	1,718,674	8,515	14,641,308
<u>\$ 24,961,172</u>	<u>\$ 1,718,674</u>	<u>\$ 8,515</u>	<u>\$ 57,978,138</u>

**STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit A-13**

<u>COMPONENT UNITS</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
TIFA 85-A.....	\$ 658,493		
TIFA 85-B.....	109,361		
TIFA 86-D.....	656,744		
Brownfield Authority.....	494,029		
Economic Development Corporation.....	0		
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 1,918,627</b>	<b>\$ 0</b>	<b>\$ 0</b>
General revenues			
Taxes.....			
Use of money and property.....			
Estimated Michigan tax tribunal expenses.....			
<b>Total General Revenues</b>			
<b>Change in Net Assets</b>			
Net assets - beginning.....			
<b>Net Assets -- Ending</b>			

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**Net (Expense) Revenue and Changes in Net Assets**

<u>TIFA 85-A</u>	<u>TIFA 85-B</u>	<u>TIFA 86-D</u>	<u>Brownfield Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (658,493)	\$ (109,361)	\$ (656,744)	\$ (494,029)	\$ 0	\$ (658,493)
					(109,361)
					(656,744)
					(494,029)
				0	0
<u>(658,493)</u>	<u>(109,361)</u>	<u>(656,744)</u>	<u>(494,029)</u>	<u>0</u>	<u>(1,918,627)</u>
\$ 1,348,066	\$ 2,003,313	\$ 2,961,353	\$ 784,848		\$ 7,097,580
323,679	209,984	186,032	62,501	\$ 566	782,762
19,432	161,846	(392,415)	(1,486)	0	(212,623)
<u>1,691,177</u>	<u>2,375,143</u>	<u>2,754,970</u>	<u>845,863</u>	<u>566</u>	<u>7,667,719</u>
1,032,684	2,265,782	2,098,226	351,834	566	5,749,092
<u>23,989,389</u>	<u>4,001,922</u>	<u>22,862,946</u>	<u>1,366,840</u>	<u>7,949</u>	<u>52,229,046</u>
<u>\$ 25,022,073</u>	<u>\$ 6,267,704</u>	<u>\$ 24,961,172</u>	<u>\$ 1,718,674</u>	<u>\$ 8,515</u>	<u>\$ 57,978,138</u>

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### **NOTE A-DESCRIPTION OF CITY OPERATIONS, REPORTING ENTITY AND FUND TYPES**

The City of Auburn Hills was incorporated in 1983 out of the former Pontiac Township. The City covers an area of approximately 17.5 square miles and provides services to its 19,837 residents (2000 U. S. Census of Population) in many areas including police and fire protection, street maintenance, water and sewer services, community enrichment and recreation services, as well as other general governmental functions. The City is governed by an elected, seven-member non-partisan Council. The Council elects one of its members to serve as mayor.

As required by generally accepted accounting principles, these financial statements present the financial position and results of operation of the City of Auburn Hills (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### **Blended Component Units:**

The Auburn Hills Building Authority is a legally separate entity governed by a five-member Board that is appointed entirely by the City Council. It is reported as if it was part of the primary government because its primary purpose is to finance and construct the City's public facilities.

#### **Discretely Presented Component Units:**

The following component units are reported within the component unit column in the government-wide financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Tax Increment Finance Authorities (TIFAs) are governed by a seven-member Board. The Board is appointed by the Mayor and confirmed by the City Council. The City can significantly influence the operations of the TIFA Board since the City Council approves the TIFA budgets. The TIFAs were created to finance infrastructure improvements within certain boundaries of the City.

The Brownfield Authority is governed by a five-member Board. The Board is appointed by the Mayor and confirmed by the City Council. Since the City Council appoints the Brownfield Authority, the City can significantly influence the operations of the Authority. The five-member board is comprised of one member of the City Council and four citizens at-large. The Brownfield Authority was created to provide a means for financing remediation of Brownfield (environmentally contaminated) sites within the City.

The Economic Development Corporation (EDC) is governed by a nine-member Board. This Board is appointed by the Mayor and confirmed by the City Council. Accordingly, the City can significantly influence the operations of the Economic Development Corporation. The EDC was created to provide a means and method for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City. The EDC may issue industrial revenue bonds as a means of providing financing for certain enterprises.

Although no separate financial statements are prepared for the component units, all financial information can be obtained from the City's Finance Department.

### **NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Auburn Hills conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies used by the City of Auburn Hills.

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and the component units even though the fiduciary fund statements are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, the fiduciary fund and the component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available for use. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. For this purpose, the City considers all revenues to be available if they are collected within 60 days of the end of the fiscal year. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal year. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. Revenues which are considered measurable, but not available are recorded as a receivable and deferred revenue.

The City reports the following major governmental Funds:

- a. The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City which are not required to be accounted for in other funds.
- b. The Major Streets Fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.
- c. The Local Streets Fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.
- d. The Police Fund is used to account for the revenues and expenditures of the City of Auburn Hills Police Department. This fund is financed primarily through a separate millage specifically for Police services.
- e. The Fire Fund is used to account for the revenues and expenditures of the City of Auburn Hills Fire Department. This fund is financed primarily through a separate millage specifically for Fire services.
- f. The Brown Road Special Assessment Fund is used to account for the funding and payment of principal and interest on debt issued in 1999 for the paving of Brown Road adjacent to the Auburn Mile Development. Property tax special assessments are made to the business in this development.
- g. The Street Improvement Fund is used to account for the revenues specifically designated for street improvement in the City. The fund is financed primarily through General Fund appropriations.

Proprietary Funds are used to account for City operations which are similar to those often found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### Measurement Focus (continued)

The City reports the following major proprietary funds:

- a. The Water Fund accounts for the operations of the City's Water Department which provides water services to all residents of the City on a user charge basis.
- b. The Sewer Fund accounts for the operations of the City's Sewer Department which provides sewage disposal services to City residents on a user charge basis.
- c. The Fieldstone Golf Club Fund is used to account for the operations of the City's municipal golf course, Fieldstone Golf Club. This fund is funded primarily through user fees charged to individuals using these facilities.

Additionally, the City reports the following fund types:

- a. Internal Service Funds are used to record the financing of services provided by the City to other departments and funds on a cost reimbursement basis.
- b. Three Fiduciary funds: the Agency, Pension Fund, and Retiree Health Care Trust.

The Agency Fund is used to account for assets held by the City as an agent for other governments or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement or results of operations.

Beginning in 2004, the Pension Fund was changed over from a third party managed activity to a City held and controlled trust. There is a Pension Board made up of nine members that administer the Pension Plan. The Pension trust holds the resources for the members and beneficiaries of the defined benefit pension plan. There are no restrictions on the assets to pay any particular member or beneficiary of either fund.

Beginning in 2006, the City created a Retiree Health Care Trust (RHCT). The RHCT is administered by a nine member Board. The RHCT holds the resources for the qualified retirees and their dependents and/or beneficiaries for retiree health care insurance. There are no restrictions on the assets to pay any particular member or beneficiary of either fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

### Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations of the City are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property tax becomes a lien on December 1 of the following year. The related property taxes are billed December 1 with the final collection date of February 28 before the delinquent taxes are turned over to the County for collection and payoff. Property taxes to finance 2007 operations were assessed December 31, 2005, levied on December 1, 2006, and substantially collected in January and February, 2007. See Note K for further information.

Property taxes levied December 1, 2007 will be used to finance the operations in 2008. As such, these taxes are recorded as deferred revenue in each respective fund at December 31, 2007.

### Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### Investments

Investments are recorded at fair value, based on quoted market prices.

### Receivables and Payables

In general, on the fund based statements, outstanding balances between funds are reported as "due to/from other funds." However, any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of allowance for uncollectible amounts.

### Inventories and Prepaid Items

Inventories in the business-type activities are valued at cost, on a first-in, first-out basis which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

### Fixed Assets

Fixed assets, which include property, plant, equipment, infrastructure assets (e.g. roads, and storm water drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if the original purchase price is not available. Donated capital assets are recorded at estimated fair market value at the time of donation.

Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are:

Water and Sewer Mains.....	50 years
Vehicles.....	3-5 years
Office Furniture and Equipment.....	3-5 years
Machinery and Equipment.....	5 years
Buildings and Improvements.....	30-35 years
Roads.....	40 years
Storm Drains.....	50 years

### Long-Term Liabilities

In the government-wide financial statements and the fund financial statements for the proprietary fund types, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business type activities or proprietary fund type statement of net assets.

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources in the period when the debt was issued. Bond premiums received on debt issuances are reported as other financing sources while bond discounts are reported as other financing uses in the period that the bonds were issued. Issuance costs are reported in the same period as the bond issuance and are reported as debt service expenditures.

### Employee Vacation and Sick Time

City employees are granted vacation in varying amounts based on length of service. Vacation pay is accrued and fully vested when earned; upon termination, employees are paid accumulated vacation at full rates to a limit of their maximum accrual which varies by bargaining unit.

All employees accrue one day of sick time monthly. This sick time is fully vested when earned. Any accrued amount in excess of 240 hours is paid at full rates at the end of each year. Upon termination, employees are paid for their remaining sick time at full rates.

The liability for this accrued sick and vacation time is reported in the Accrued Sick and Vacation Internal Service Fund.

### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### Restricted Net Assets

Assets which are restricted net assets for specified uses by bond debt requirements, grant provisions, or other external requirements are classified as restricted net assets. Following is a list of restricted net assets:

Police.....	\$ 18,033,265
Brown Road Special Assessments.....	4,380,448
Fire.....	2,604,628
Tree Ordinance.....	569,749
Drug Forfeiture.....	36,687
Police Grants and Donations.....	7,179
Metro Act.....	144,930
Total Restricted Assets .....	<u>\$ 25,776,886</u>

In addition, the \$14,641,308 restricted net assets of the component units are restricted to be spent in accordance with the respective TIFA, Brownfield and EDC plan documents.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### NOTE C-CASH AND CASH EQUIVALENTS

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

The Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

The City adopted Public Act 149 of 1999 which allows the City to invest retiree health care funds in vehicles allowed under Michigan Public Act 314 of 1965, as amended.

The City has designated three banks for the deposit of local unit funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to three types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy restricts depository accounts to federally insured institutions located within the state of Michigan (consistent with state law). At year end, the City had \$37,908,112 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The uninsured and uncollateralized amount noted included \$2,848,875 of component unit funds. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

In addition to the governmental fund bank deposits noted above, the City had mutual fund investments held in trust by a custodial bank as part of the City's Pension plan and Retiree Health Care program. The mutual fund investments stated at market value were \$17,970,839 and \$4,299,661 in the Pension Plan and the Retiree Health Care Trust respectively as of December 31, 2007..

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts the average maturity of investments to two (2) years with the exception of long-term debt or capital fund investments which may be invested in securities matched to cash flow requirements with a maximum maturity of five (5) years. The City's pension and retiree health investment policies restrict cash equivalents to a dollar-weighted maturity of ninety (90) days or less. At year end, the City's investments have the following range of maturity dates:

<u>Governmental Unit</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>			
		<u>&lt; 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>&gt;10</u>
Pension	Pooled Funds	\$ 668,020		\$ 10,668,487	
Retiree Health Care Trust	Pooled Funds	329,932		2,273,296	

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's general investment policy further limits investments to: commercial paper to the highest rating (A-1/P-1); bankers' acceptances whose long-term debt rating is at least an A; obligations of this state or its political subdivisions to the highest rating (A-1/P-1); pooled funds with a rating of at least an A.

The City's pension fund and retiree health care investment policies require the fixed income managers to have no more than 15% of the portfolio in non-investment grade securities (BB to CCC rated) with at least 80% of the non-investment grade consisting of B-rated or higher securities. As of December 31, 2007, the Pension Fund and the Retiree Health Care Trust fixed income portfolios held non-investment grade securities that represented approximately 3% and less than 1% respectively of their total fixed income investments.

As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Governmental Unit</u>	<u>Investment Type</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Rating Agency</u>
Primary Government	Pooled Funds	Aaa	\$ 33,964,328	Moody's
Component Units	Pooled Funds	Aaa	15,680,734	Moody's
Trust & Agency	Pooled Funds	Aaa	6,156,526	Moody's
Retiree Health Care	Pooled Funds	Aaa	329,932	Moody's
	Pooled Funds	AA-	2,273,296	S & P
Pension	Pooled Funds	Not Rated	668,020	
	Pooled Funds	AA	10,668,487	S & P

### NOTE D-DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property Taxes.....		\$ 21,473,530
Special Assessments.....	\$ 4,052,170	
Other.....	471,072	
Total Deferred Revenue.....	<u>\$ 4,523,242</u>	<u>\$ 21,473,530</u>

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### NOTE E-FIXED ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

<u>Governmental Activities</u>	<u>Balance at Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2007</u>
Capital assets not being depreciated:				
Land & Improvements.....	\$ 5,016,650	\$ 196,321	\$ -	\$ 5,212,971
Capital assets being depreciated				
Office Furniture & Equipment.....	878,609	21,992	-	900,601
Machinery & Equipment.....	3,292,142	233,439	11,730	3,513,851
Vehicles.....	5,675,325	704,368	333,231	6,046,462
Buildings & Improvements.....	16,242,272	1,308,158	-	17,550,430
Storm Drains.....	5,878,324	45,958	-	5,924,282
Roads.....	63,572,322	204,198	-	63,776,520
Subtotal.....	95,538,994	2,518,113	344,961	97,712,146
Accumulated Depreciation:				
Office Furniture & Equipment.....	830,862	33,392	-	864,254
Machinery & Equipment.....	2,231,030	380,959	10,786	2,601,203
Vehicles.....	4,811,726	445,233	333,232	4,923,727
Buildings & Improvements.....	4,900,505	531,140	-	5,431,645
Storm Drains.....	629,304	118,444	(419)	748,167
Roads.....	15,497,451	1,591,861	(1,237)	17,090,549
Subtotal.....	28,900,878	3,101,029	342,362	31,659,545
Net capital assets being depreciated.....	66,638,116	(582,916)	2,599	66,052,601
Net capital assets.....	\$ 71,654,766	\$ (386,595)	\$ 2,599	\$ 71,265,572

<u>Business-Type Activities</u>	<u>Balance at Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2007</u>
Capital assets not being depreciated:				
Land.....	\$ 8,314,199	\$ 6,221	\$ -	\$ 8,320,420
Land Improvements.....	83,297	-	-	83,297
Subtotal.....	8,397,496	6,221	-	8,403,717
Capital assets being depreciated:				
Water & Sewer Mains.....	60,381,088	327,396	-	60,708,484
Machinery & Equipment.....	2,591,297	190,367	10,617	2,771,047
Buildings and Improvements.....	10,107,951	12,844	-	10,120,795
Vehicles.....	1,000,192	263,968	124,881	1,139,279
Subtotal.....	74,080,528	794,575	135,498	74,739,605
Accumulated Depreciation:				
Water & Sewer Mains.....	10,496,286	1,225,543	-	11,721,829
Machinery & Equipment.....	2,312,126	391,301	363,492	2,339,935
Buildings and Improvements.....	1,929,219	373,861	-	2,303,080
Vehicles.....	751,209	127,831	124,881	754,159
Subtotal.....	15,488,840	2,118,536	488,373	17,119,003
Net Capital Assets being depreciated.....	58,591,688	(1,323,961)	(352,875)	57,620,602
Net Capital assets.....	\$ 66,989,184	\$ (1,317,740)	\$ (352,875)	\$ 66,024,319

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

Depreciation expense was charged to programs of the primary government as follows:

### Governmental Activities

Management and Planning.....	\$ 47,187
Public Safety.....	370,560
Streets, highways & public improvements.....	2,149,126
Community and economic development.....	568
General Support.....	102,051
Internal Services.....	431,537
Total Governmental-Type Activities.....	<u>3,101,029</u>

### Business-Type Activities

Water.....	1,090,731
Sewer.....	601,610
Fieldstone Golf Club.....	264,472
Internal Services.....	161,723
Total Business-Type Activities.....	<u>2,118,536</u>
Total Depreciation Expense.....	<u>\$ 5,219,565</u>

### NOTE F-LONG-TERM DEBT (including current portions)

Long-term debt of the City is as follows:

	<u>Balance at Jan. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at Dec. 31, 2007</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
4.6% to 6.0% John E. Olsen Drain Project, Issued 7/1/96, Original Issue Amount- \$950,000 (1).....	\$ 625,000		\$ (50,000)	\$ 575,000	\$ 50,000
4.5% to 5.5% Special Assessment Bonds Issued 12/1/99, Original Issue Amount- \$7,250,000 (2).....	4,625,000		(475,000)	4,150,000	500,000
Tax Tribunal Cases (3).....	2,213,007	1,790,959	(745,541)	3,258,425	
Total Governmental Activities.....	<u>\$ 7,463,007</u>	<u>\$ 1,790,959</u>	<u>\$ (1,270,541)</u>	<u>\$ 7,983,425</u>	<u>\$ 550,000</u>

	<u>Balance at Jan. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at Dec. 31, 2007</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
3.45% to 5.0% City of Auburn Hills Building Authority Bonds, Issued 4/28/99, Original Issue Amount-\$14,900,000.....	\$ 13,055,000		\$ (885,000)	\$ 12,170,000	\$ 790,000
Total Business-Type Activities.....	<u>13,055,000</u>	<u>-</u>	<u>(885,000)</u>	<u>12,170,000</u>	<u>790,000</u>
Grand Total-All Primary Government Long-Term Debt (Including Current Portion).....	<u>\$ 20,518,007</u>	<u>\$ 1,790,959</u>	<u>\$ (2,155,541)</u>	<u>\$ 20,153,425</u>	<u>\$ 1,340,000</u>

(1) The Olsen Drain project debt payment is recorded in the Storm Water Management Capital Project Fund and is funded using general operating funds, which are transferred from the General Fund.

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### NOTE F-LONG-TERM DEBT (including current portions) - (Continued)

(2) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At December 31, 2007, the City has \$328,278 available in the Debt Service Funds for repayment of these bonds. In addition, there is \$4,052,170 of special assessments receivable in the future. Under Michigan law, the City is secondarily liable for payment of these bonds.

(3) Tax Tribunal cases represent the amount of City property tax assessments which have been contested and are subject to repayment contingent upon the determination of the Michigan Tax Tribunal.

**Defeased Debt**-In 1999, the Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At December 31, 2007, \$12,050,000 of bonds outstanding is considered defeased.

The annual requirements to pay principal and interest on the obligations (excluding tax tribunal cases) outstanding as of December 31, 2007 are shown below:

#### Governmental Activities:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008 .....	\$ 550,000	\$ 248,700	\$ 798,700
2009 .....	575,000	220,975	795,975
2010 .....	600,000	191,950	791,950
2011 .....	650,000	161,075	811,075
2012 .....	700,000	126,275	826,275
2013-2016.....	1,650,000	147,788	1,797,788
Total Governmental .....	4,725,000	1,096,763	5,821,763

#### Business-Type Activities:

2008 .....	790,000	572,855	1,362,855
2009 .....	860,000	538,885	1,398,885
2010 .....	895,000	501,045	1,396,045
2011 .....	1,185,000	461,218	1,646,218
2012 .....	1,250,000	407,300	1,657,300
2013-2017.....	7,190,000	1,088,288	8,278,288
Total Business-Type.....	12,170,000	3,569,591	15,739,591

#### Total Primary Government

2008 .....	1,340,000	821,555	2,161,555
2009 .....	1,435,000	759,860	2,194,860
2010 .....	1,495,000	692,995	2,187,995
2011 .....	1,835,000	622,293	2,457,293
2012 .....	1,950,000	533,575	2,483,575
2013-2017.....	8,840,000	1,236,076	10,076,076
Total Primary Government.....	\$ 16,895,000	\$ 4,666,354	\$ 21,561,354

By statute, the City general obligation debt is restricted to 10% of the equalized value of all property in the City. Certain obligations, such as special assessment debt, are not subject to this limitation. At December 31, 2007 the City's debt limit amounted to \$284,981,310 and indebtedness subject to the limitation aggregated \$12,745,000.

# NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

## NOTE G-INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Retiree Health Care Fund	General Fund.....	\$ 7,793
	Major Streets.....	804
	Local Streets.....	485
	Police Fund.....	13,390
	Fire Fund.....	2,679
	Non-major governmental funds.....	121
	Internal Service Fund.....	363
	Water and Sewer Funds.....	1,288
	Fieldstone Golf Club.....	144
	Total Retiree Health Care Fund.....	<u>27,067</u>
Sewer	Fieldstone Golf Club.....	\$ 1,700,170
Water	Fieldstone Golf Club.....	563,816
General Fund	Fieldstone Golf Club.....	250,000
	Total Fieldstone Golf Club.....	<u>2,513,986</u>
Accrued Sick and Vacation Fund	General Fund.....	\$ 571,993
	Major Streets.....	20,141
	Local Streets.....	18,214
	Police Fund.....	668,845
	Fire Fund.....	192,825
	Non-major governmental funds.....	15,667
	Internal Service Fund.....	36,532
	Water and Sewer Funds.....	75,597
	Fieldstone Golf Club.....	20,691
	Total Accrued Sick and Vacation Fund.....	<u>1,620,505</u>
	Total .....	<u>\$ 4,161,558</u>

These balances result from the time lag between dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

## NOTE H-INTERFUND TRANSFERS

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Major Streets.....	\$ 300,000
	Local Streets.....	900,000
	Street Improvement.....	1,250,000
	Fieldstone Golf Club.....	285,684
	Non-Major Governmental Funds.....	25,000
	Total General Fund.....	<u>2,760,684</u>
Major Streets	Water and Sewer Funds.....	65,052
Sewer	Fieldstone Golf Club.....	285,684
Sewer	Storm Water Management.....	450,000
Sewer	Water Fund.....	1,300,000
	Total .....	<u>\$ 4,861,420</u>

The transfers from the General Fund to the Major and Local Street Funds were to supplement the Act 51 resources provided by the State of Michigan for the maintenance of major and local roads (\$300,000 and \$900,000 respectively). The transfers to the non-major governmental funds were to provide funds for drainage projects (\$450,000), street construction projects (\$1,250,000), and for sidewalk maintenance (\$25,000). The transfer from Major Streets to the Water and Sewer funds represents a repayment for funds provided to Major Streets for a major road project in 1996. The fund transfers from General and Sewer to the Fieldstone Golf Club were provided to support the current year's operations. The fund transfers from the Sewer fund to the Water fund (\$1,300,000) and Storm Water Management (\$450,000) were provided to support the current year's operations in both of these funds.

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### NOTE I-RETIREMENT PLANS

#### Defined Benefit Plan

**Plan Description** - The City contributes to a single-employer defined benefit pension plan. This plan was available to all full-time employees hired prior to 1998, but is no longer available to new employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The plan is administered through the City of Auburn Hills Pension Board. Due to its nature, the plan does not issue an annual financial statement, either as a stand-alone financial report, or by inclusion in the report of a public employee retirement system or another entity.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with three collective bargaining units. The plan required a contribution of 35.05% of gross wages for 2007.

**Annual Pension Cost** - For the year ended December 31, 2007, the City's annual pension cost of \$1,736,727 was equal to the City's required contribution of \$1,502,180, less interest of \$285,117 on the net pension asset, plus an annual required contribution adjustment in 2007 for \$519,664. The City's actual contribution for the year ended December 31, 2007 was \$1,563,587. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the individual entry age normal cost method.

Significant actuarial assumptions used include (a) an investment rate of return of 7.5%, (b) projected salary increase of 5% per year compounded annually, (c) postretirement benefit increases of 5% per year for eligible members, and (d) inflation of 5% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 13 years.

Three year trend information is as follows:

	As of December 31		
	2007	2006	2005
Annual Pension Cost.....	\$ 1,736,727	\$ 1,595,976	\$ 1,064,358
Percentage of Annual Pension Cost Contributed.....	90.0%	94.1%	148.2%
Net Pension Asset.....	\$ (3,628,420)	(3,801,560)	(8,593,662)

	Actuarial Valuation		
	December 31, 2006	December 31, 2005	December 31, 2004
Actuarial Value of Assets.....	\$ 26,814,910	\$ 23,341,525	\$ 21,163,078
Actuarial Accrued Liability (Entry Age).....	37,247,171	33,270,684	30,440,335
Unfunded Actuarial Accrued Liability.....	10,432,261	9,929,159	9,277,257
Funded Ratio.....	72.0%	70.2%	69.5%
Covered Payroll.....	4,174,022	4,285,822	4,333,426
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll.....	249.9%	231.7%	214.1%

For the year ended December 31, 2007, the City's annual pension cost and net pension asset for the current year is:

Annual Required Contribution.....	\$ 1,502,180
ARC Adjustment.....	519,664
Interest on Net Pension Asset.....	(285,117)
Annual Pension Cost.....	1,736,727
Contributions made.....	(1,563,587)
Decrease / (Increase) in Net Pension Asset.....	173,140
Net Pension Asset Beginning of the Year.....	(3,801,560)
Net Pension Asset End of the Year.....	\$ (3,628,420)

#### Defined Contribution Plan

The City established a defined contribution plan in 1998 to provide an alternative to the defined benefit plan. The International City Managers Association (ICMA) administers the plan, and the City Council has authority over plan provisions and contribution requirements. The defined contribution pension plan is the only plan available to employees hired after January 1, 2000. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At December 31, 2007, there were 200 members. The City is required to contribute between 9% and 12% of total salaries. Employees may contribute up to 100% of their salaries not to exceed amounts limited by statute. In accordance with these requirements, the City contributed \$721,901 during the current year and employees contributed \$391,931. Employees are vested after five years of service. Plan provisions and contribution requirements are established by the City Council and collective bargaining and may be amended.

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### Other Post--Employment Benefits

**Plan Description** - The City contributes to a single-employer defined benefit retiree health care plan. The City provides retiree health care benefits to eligible former City Council members and retired employees through the Retiree Health Care Special Revenue fund and the City of Auburn Hills Retiree Health Care Plan. Beginning in 1997, the City started a formal method to pre-fund post retirement health care benefits. Beginning in 1999, the City began using an actuarial recommended percent of payroll to contribute to the Retiree Health Care fund. In April of 2006, the City adopted a Retiree Health Care Plan and created a Retiree Health Care Trust as a receptacle for investing contributions by the City. The Retiree Health Care Trust is administered through the City of Auburn Hills Retiree Health Care Board. Due to its nature, the plan does not issue an annual financial statement, either as a stand-alone financial report, or by inclusion in the report of public employee post retirement system or another entity.

The City provides health care benefits in accordance with labor contracts and personnel policies. There were 44 retirees (79 including their spouses and dependents) eligible for health care benefits as of December 31, 2007. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due and are currently paid through a special revenue fund, not from the prefunding trust. During 2007, the amount expended for post-employment premiums was \$505,714. Administrative costs are paid by the Plan through employer contributions.

**Funding Policy** - The obligations to contribute to and maintain the retiree health plan for these employees are established by negotiation with three collective bargaining units. The plan required a contribution of 10.02% of gross wages for 2007. The Trust has as a fund balance of \$6,913,705 as of December 31, 2007. Total pre-funding contributions of \$3,355,000 were made to this fund which is shown in the financial statements as a Pension and Other Employee Benefit Trust Fund. Contributions to the Trust in 2007 included a one-time contribution of \$2.8 million which was in addition to the normal contributions.

The funding progress of the plan as of the most recent valuation date of December 31, 2006 is as follows:

Actuarial Value of Assets.....	\$ 3,156,996
Actuarial Accrued Liability (Entry Age).....	15,067,159
Unfunded Actuarial Accrued Liability.....	11,910,163
Funded Ratio.....	21.0%
Covered Payroll.....	9,699,166
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll.....	122.8%

**Actuarial methods and assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 5.0% after ten years. Both rates included a 5.0% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percent of projected payroll over 20 years and added to the computed normal cost to determine the total contribution rate.

**Upcoming reporting change** - Effective December 31, 2008 the Governmental Account Standards Board Statement 45 will require government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The City of Auburn Hills has been accruing for postretirement benefits since 1999. An actuarial determined percent of the employee's payroll is expensed and transferred to a Retiree Health Benefit fund each payroll.



# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### NOTE J-RISK MANAGEMENT, CONTINGENCIES, AND COMMITMENTS

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for most of these potential risks. In 2004, the City became self insured for property damage to City vehicles under \$75,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five years.

Under provisions of a contractual agreement signed in 1995 between the City and the Cardell Corporation, the City received a cash advance during 2007 in the amount of \$141,967 to provide operating funds for the Fieldstone Golf Club Fund. A total of \$2,318,894 in cash advances have been received from the Cardell Corporation under the provisions of this contractual agreement. Repayment of this advance is only required when the Fieldstone Golf Club Fund reaches a specified cash balance. Because repayment of this advance is required only after the Fieldstone Golf Club Fund reaches specific cash balance levels, these advances have been recorded as revenue in the Fieldstone Golf Club Fund.

The City is aware of several asserted claims. It is the opinion of the City that any material future liability arising from these claims would be within the limits of the City's insurance coverage. No provision has been made in the accompanying basic financial statements for potential liability, if any, that may arise from these suits.

During 2003, the State of Michigan asserted a claim for a refund of school taxes captured for Tax Increment Financing Authority (TIFA) purposes. This issue has not been settled. It is the City's belief that the majority of the funds were captured and spent in accordance with all applicable laws and regulations regarding tax increment financing. To be conservative, the City has recorded a liability of \$4,368,583 to cover any future reimbursement to the State of Michigan.

### NOTE K-PROPERTY TAXES

The City property tax is levied each December 1 on the taxable valuation of property located in the City as of the preceding December 31. On December 31, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February following. Taxable values are established annually by the City and are equalized by the County. The 2006 taxable valuation of the City totaled approximately \$2,535 million of which approximately \$719 million is captured by the Tax Increment Financing Authority (TIFA) and \$35.1 million by the Brownfield Authority. The City property tax levy for 2006 (which was collected primarily in 2007) was composed of the following components:

<u>Levy Purposes</u>	<u>Millage Rate</u>	<u>Maximum Allowable Millage Rate</u>	<u>Tax Revenue</u>
General Operating.....	2.1100	2.1125	\$ 5,081,649
Fire Department.....	1.7604	1.7604	3,528,049
Police Department.....	5.9857	5.9857	11,996,088
Captured Property Taxes.....			7,598,093
Total City Property Tax Levy.....	9.8561	N/A	\$ 28,203,879

The City annually sells its delinquent real property taxes to the County which then becomes responsible for collecting the taxes and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100% of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the City is less than the face value that has been received because of the time value of money. During the current year, the City received \$876,559 from this sale. At the end of the tax reversion process (approximately 3 years), the County charges the City for any uncollected taxes. Historically, this amount has not been significant.

### NOTE L-CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and cumulative shortfall since January 1, 2000 is presented as follows:

Shortfall at December 31, 2006.....	\$ (3,533,047)
Building Permit Revenue.....	618,106
Related Expenses	
Direct Costs (Building & Community Development).....	828,465
Estimated Indirect Costs.....	95,379
Total Construction Code Expenditures.....	923,844
Cumulative Shortfall at December 31, 2007.....	\$ (3,838,785)

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF AUBURN HILLS

## EXHIBIT A-14

### NOTE M-COMPONENT UNIT DISCLOSURES

The City of Auburn Hills has five component units. The five units consist of three tax increment financing authorities: TIFA A, TIFA B, and TIFA D, the Brownfield Authority and the Economic Development Corporation. The financial information for the component units is in Exhibits A-12 and A-13.

#### Unearned Revenue

Property taxes levied in December 2007 that will be recognized as revenue in 2008 in the amount of \$5,094,273 are shown as unearned revenue.

#### Cash and Cash Equivalents

The cash and cash equivalents of the City's components units reflected in the financial statement consist of deposits, certificates of deposits, and bank investment pools and are shown in more detail in Note C. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. The investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

#### Long-Term Debt

The long-term debt for the component units of the City of Auburn Hills is presented below:

	Balance at Jan. 1, 2007	Additions (Reductions)	Balance at Dec. 31, 2007	Due Within One Year
Tax Tribunal Cases.....	\$ 2,059,646	\$ 4,346	\$ 2,063,992	\$ -

#### No Commitment Debt

Excluded from the component unit Long-Term Debt are revenue bonds issued by the Economic Development Corporation to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of December 31, 2007, there were 5 series of Economic Development Bonds outstanding. The aggregate principal amount outstanding could not be determined. However, their original issue amounts totaled \$16,850,000.

### NOTE M-COMPONENT UNIT DISCLOSURES

#### Property and Equipment

The following table summarizes the changes in the fixed assets of the component units:

	Balance at Jan. 1, 2006	Additions	Deletions & Adjustments	Balance Dec. 31, 2006
Capital assets not being depreciated:				
TIFA 85-A (Land).....	\$ 5,137,435	\$ 306,220		\$ 5,443,655
TIFA 86-D (Land).....	2,017,211	-		2,017,211
TIFA 86-A (Construction in Progress).....	6,720	\$ 67,591		74,311
TIFA 86-D (Construction in Progress).....	-	806,137		806,137
Subtotal.....	7,161,366	1,179,948		8,341,314
Capital assets being depreciated:				
TIFA 85-A (Land Improvements).....	1,242,762	407,654		1,650,416
TIFA 85-A (Roads).....	16,777,320	-		16,777,320
TIFA 85-B (Land Improvements).....	-	304,562		304,562
TIFA 86-B (Roads).....	2,115,241	-		2,115,241
TIFA 86-D (Roads).....	897,105	-		897,105
TIFA 85-D (Land Improvements).....	-	30,675		30,675
TIFA 86-D (Buildings & Improvements).....	19,915,607	85,090		20,000,697
TIFA 86-D (Furniture and Equipment).....	215,187	-		215,187
Subtotal.....	41,163,222	827,981		41,991,203
Accumulated depreciation				
TIFA 85-A (Land Improvements).....	89,897	72,329		162,226
TIFA 85-A (Roads).....	2,108,529	419,433		2,527,962
TIFA 85-B (Land Improvements).....	-	7,614		7,614
TIFA 86-B (Roads).....	210,156	52,881		263,037
TIFA 86-D (Roads).....	60,277	19,278		79,555
TIFA 85-D (Land Improvements).....	-	383		383
TIFA 86-D (Buildings & Improvements).....	1,328,873	498,954		1,827,827
TIFA 86-D (Furniture and Equipment).....	21,519	43,037		64,556
Subtotal.....	3,819,251	1,113,909		4,933,160
Net Capital Assets being depreciated.....	37,343,971	(285,928)		37,058,043
Net Capital Assets.....	\$ 44,505,337	\$ 894,020		\$ 45,399,357

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN AND  
RETIREE HEALTH CARE TRUST  
ANALYSIS OF FUNDING PROGRESS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit B-1**

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded AAL (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>Unfunded AAL as a Percentage of Covered Payroll (b-a)/c</b>
12/31/06	\$ 26,814,910	\$ 37,247,171	\$ 10,432,261	72.0%	\$ 4,174,022	249.9%
12/31/05	23,341,525	33,270,684	9,929,159	70.2%	4,285,822	231.7%
12/31/04	21,163,078	30,440,335	9,277,257	69.5%	4,333,426	214.1%
12/31/03	18,229,129	30,459,067	12,229,938	59.8%	4,666,254	262.1%
12/31/02	14,199,574	27,723,143	13,523,569	51.2%	4,408,490	306.8%
12/31/01	15,243,527	26,007,423	10,763,896	58.6%	4,524,623	237.9%

**RETIREE HEALTH CARE TRUST**

12/31/06	\$ 3,156,996	\$ 15,067,159	\$ 11,910,163	21.0%	\$ 9,699,166	122.8%
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**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN**

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

Actuarial Cost Method.....	Individual Entry Age
Amortization Method.....	Level Percent of Payroll, Closed
Remaining Amortization Period.....	13 Years
Asset Valuation Method.....	Market Value
Actuarial Assumptions:	
Investment Return.....	7.50%
Projected Salary Increases.....	5.00%
Cost of Living Adjustments.....	5.00% For eligible members
Inflation.....	5.00%

See Exhibit A-14, Notes to Financial Statements

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN AND  
RETIREE HEALTH CARE TRUST  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit B-2**

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN**

<b>Payments Fiscal Year Ending</b>	<b>Valuation Date</b>	<b>Annual Required Contribution</b>	<b>Percent Contributed</b>
12/31/2007	12/31/2005	\$ 1,502,180	104.1%
12/31/2006	12/31/2004	1,384,529	108.5%
12/31/2005	12/31/2003	1,670,414	94.4%
12/31/2004	12/31/2002	1,736,504	119.8%
12/31/2003	1/1/2002	1,591,762	57.4%
12/31/2002	1/1/2001	1,125,465	78.1%

**RETIREE HEALTH CARE TRUST**

12/31/2007	12/31/2005	\$ 998,568	336.0%
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**RETIREE HEALTH CARE TRUST**

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

Actuarial Cost Method.....	Individual Entry Age
Amortization Method.....	Level Percent of Payroll, Open
Remaining Amortization Period.....	20 Years
Asset Valuation Method.....	Market Value
Actuarial Assumptions:	
Investment Return.....	7.50%
Projected Salary Increases.....	5.00%
Wage and Medical Inflation.....	5.00%

See Exhibit A-14, Notes to Financial Statements

# **MAJOR FUNDS**

## MAJOR FUNDS

### FUND DESCRIPTIONS

**General Fund**-The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City which are not required to be accounted for in other funds.

**Major Streets**-This fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.

**Local Streets**-This fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.

**Police**-The Police fund is used to account for the revenues and expenditures of the City of Auburn Hills Police Department. This fund is financed primarily through a separate millage specifically for Police services.

**Fire**-The Fire fund is used to account for the revenues and expenditures of the City of Auburn Hills Fire Department. This fund is financed primarily through a separate millage specifically for Fire Department services.

**Brown Road Special Assessment Debt**-This fund is used to account for the funding and payment of principal and interest on debt issued in 1999 for the paving of Brown Road adjacent to the Auburn Mile Development. Property tax special assessments are made to the businesses in this development.

**Street Improvement**-This fund is used to account for the revenues specifically designated for street improvements in the City. This fund is funded primarily through General Fund appropriation as well as the balance of bond proceeds specifically for street improvements.

**SCHEDULE OF REVENUE AND TRANSFERS IN  
BUDGET AND ACTUAL -- GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit B-3**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<b><u>OPERATING REVENUE</u></b>				
<b><u>TAXES</u></b>				
Current property taxes.....	\$ 4,124,606	\$ 4,124,606	\$ 5,081,649	\$ 957,043
Tax collection fee.....	1,044,635	1,044,635	1,061,202	16,567
<b>TOTALS</b>	<b>5,169,241</b>	<b>5,169,241</b>	<b>6,142,851</b>	<b>973,610</b>
<b><u>LICENSES AND PERMITS</u></b>				
Building permits.....	150,000	150,000	264,652	114,652
Electrical permits.....	80,000	80,000	86,664	6,664
Heat, vent, & AC permits.....	60,000	60,000	53,033	(6,967)
Plumbing permits.....	33,000	33,000	31,896	(1,104)
Business licenses and permits	58,000	58,000	54,082	(3,918)
Other licenses and permits.....	121,370	121,370	94,621	(26,749)
<b>TOTALS</b>	<b>502,370</b>	<b>502,370</b>	<b>584,948</b>	<b>82,578</b>
<b><u>CHARGES FOR SERVICES</u></b>				
Engineering services.....	165,000	165,000	191,836	26,836
Plan review fees.....	120,000	120,000	176,962	56,962
Recreation programs and activities.....	98,125	98,125	116,843	18,718
Senior citizen programs and activities.....	108,500	108,500	104,420	(4,080)
<b>TOTALS</b>	<b>491,625</b>	<b>491,625</b>	<b>590,061</b>	<b>98,436</b>
<b><u>STATE SOURCES</u></b>				
SMART (transportation) grant.....	43,987	43,987	111,167	67,180
State aid grant.....	0	0	0	0
State shared revenue sharing.....	1,622,875	1,622,875	1,577,479	(45,396)
<b>TOTALS</b>	<b>1,666,862</b>	<b>1,666,862</b>	<b>1,688,646</b>	<b>21,784</b>
<b><u>USE OF MONEY &amp; PROPERTY</u></b>				
Interest revenue.....	800,000	800,000	1,260,170	460,170
Sale of fixed assets.....	0	0	0	0
Building rental.....	518,557	518,557	521,107	2,550
<b>TOTALS</b>	<b>1,318,557</b>	<b>1,318,557</b>	<b>1,781,277</b>	<b>462,720</b>
<b><u>ADMINISTRATIVE &amp; INTERFUND CHARGES</u></b>				
Administrative charges.....	2,105,500	2,105,500	2,110,568	5,068
Interfund charges.....	2,140,900	2,140,900	2,140,900	0
<b>TOTALS</b>	<b>4,246,400</b>	<b>4,246,400</b>	<b>4,251,468</b>	<b>5,068</b>
<b><u>OTHER REVENUE</u></b> .....	<b>693,472</b>	<b>693,472</b>	<b>920,907</b>	<b>227,435</b>
<b>TOTAL REVENUE</b>	<b>\$ 14,088,527</b>	<b>\$ 14,088,527</b>	<b>\$ 15,960,158</b>	<b>\$ 1,871,631</b>



**SCHEDULE OF EXPENDITURES AND APPROPRIATIONS  
BUDGET AND ACTUAL -- GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**EXHIBIT B-4**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<b><u>LEGISLATIVE</u></b>				
City Council.....	\$ 224,201	\$ 224,201	\$ 268,232	\$ 44,031
<b><u>MANAGEMENT &amp; PLANNING</u></b>				
Assessor.....	1,118,208	1,118,208	973,837	(144,371)
City Clerk.....	449,294	449,294	401,537	(47,757)
Public Services Administration.....	861,725	861,725	804,597	(57,128)
City Manager.....	530,669	530,669	611,178	80,509
Finance.....	427,812	427,812	424,736	(3,076)
General Administration.....	393,876	393,876	409,293	15,417
Pension Board.....	57,200	57,200	44,447	(12,753)
Management Information Systems.....	502,750	502,750	543,421	40,671
Treasurer.....	477,666	477,666	467,048	(10,618)
<b>TOTALS</b>	<b>4,819,200</b>	<b>4,819,200</b>	<b>4,680,094</b>	<b>(139,106)</b>
<b><u>STREETS, HIGHWAYS &amp; PUBLIC IMPROVEMENTS</u></b>				
Capital Improvements.....	366,250	366,250	366,250	0
<b><u>COMMUNITY &amp; ECONOMIC DEVELOPMENT</u></b>				
Building.....	966,657	966,657	967,524	867
Economic Development.....	0	0	3,050	3,050
Community Development.....	517,183	517,183	477,072	(40,111)
Recreation.....	502,078	502,078	503,383	1,305
Grant Expenditures.....	53,398	53,398	52,882	(516)
Senior Citizens.....	419,330	419,330	419,091	(239)
<b>TOTALS</b>	<b>2,458,646</b>	<b>2,458,646</b>	<b>2,423,002</b>	<b>(35,644)</b>
<b><u>GENERAL SUPPORT</u></b>				
Facilities.....	1,407,286	1,407,286	1,421,202	13,916
Parks and Grounds.....	1,591,639	1,591,639	1,894,589	302,950
<b>TOTALS</b>	<b>2,998,925</b>	<b>2,998,925</b>	<b>3,315,791</b>	<b>316,866</b>
<b><u>CAPITAL OUTLAY</u></b>				
Treasurer.....	10,200	10,200	3,965	(6,235)
Facilities.....	249,000	249,000	229,540	(19,460)
General Administration.....	0	0	9,160	9,160
Senior Citizens.....	10,400	10,400	5,677	(4,723)
Capital Improvements.....	0	0	196,321	196,321
Management Information Systems.....	182,500	182,500	52,598	(129,902)
<b>TOTALS</b>	<b>452,100</b>	<b>452,100</b>	<b>497,261</b>	<b>45,161</b>
<b><u>DEBT SERVICE</u></b>				
MTT refunds.....	50,000	50,000	56,983	6,983
Principal.....				0
Interest.....				0
<b>TOTALS</b>	<b>50,000</b>	<b>50,000</b>	<b>56,983</b>	<b>6,983</b>
<b>TOTAL EXPENDITURES</b>	<b>11,369,322</b>	<b>11,369,322</b>	<b>11,607,613</b>	<b>238,291</b>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<b><u>TRANSFERS</u></b>				
<b><u>Special Revenue:</u></b>				
Major Streets.....	\$ 600,000	\$ 300,000	\$ 300,000	\$ 0
Local Streets.....	600,000	900,000	900,000	0
Park Improvements.....	150,000	150,000	0	(150,000)
Sidewalks .....	25,000	25,000	25,000	0
<b>TOTALS</b>	<u>1,375,000</u>	<u>1,375,000</u>	<u>1,225,000</u>	<u>(150,000)</u>
<b><u>Capital Projects:</u></b>				
Street Improvement.....	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,250,000</u>	<u>0</u>
<b>TOTALS</b>	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,250,000</u>	<u>0</u>
<b><u>Proprietary Funds:</u></b>				
Fieldstone Golf Club.....	<u>285,684</u>	<u>285,684</u>	<u>285,684</u>	<u>0</u>
<b>TOTALS</b>	<u>285,684</u>	<u>285,684</u>	<u>285,684</u>	<u>0</u>
<b>TOTAL TRANSFERS</b>	<u>2,910,684</u>	<u>2,910,684</u>	<u>2,760,684</u>	<u>(150,000)</u>
<b>TOTAL EXPENDITURES AND TRANSFERS</b>	<u>\$ 14,280,006</u>	<u>\$ 14,280,006</u>	<u>\$ 14,368,297</u>	<u>\$ 88,291</u>

**SCHEDULE OF REVENUES AND OTHER SOURCES  
BUDGET AND ACTUAL -- OTHER MAJOR FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**EXHIBIT B-5**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<b><u>MAJOR STREETS</u></b>				
State sources.....	\$ 896,511	\$ 896,511	\$ 938,763	\$ 42,252
Use of money and property.....	3,500	3,500	37,907	34,407
General fund appropriation.....	600,000	600,000	300,000	(300,000)
Other.....	0	0	0	-
<b>TOTALS</b>	<u>\$ 1,500,011</u>	<u>\$ 1,500,011</u>	<u>\$ 1,276,670</u>	<u>\$ (223,341)</u>
<b><u>LOCAL STREETS</u></b>				
State sources.....	\$ 288,799	\$ 288,799	\$ 286,909	\$ (1,890)
Use of money and property.....	3,000	3,000	20,268	17,268
Other revenues.....	0	0	15,914	15,914
General fund appropriation.....	600,000	600,000	900,000	300,000
<b>TOTALS</b>	<u>\$ 891,799</u>	<u>\$ 891,799</u>	<u>\$ 1,223,091</u>	<u>\$ 331,292</u>
<b><u>POLICE</u></b>				
Property taxes.....	\$ 11,750,782	\$ 11,750,782	\$ 11,996,088	\$ 245,306
Licenses and permits.....	10,000	10,000	11,000	1,000
Charges for services.....	479,000	479,000	528,867	49,867
Fines and forfeitures.....	230,000	230,000	173,528	(56,472)
Federal sources.....	0	0	0	-
State sources.....	46,000	46,000	57,770	11,770
Use of money and property.....	537,900	537,900	961,175	423,275
Other.....	14,000	14,000	20,081	6,081
<b>TOTALS</b>	<u>\$ 13,067,682</u>	<u>\$ 13,067,682</u>	<u>\$ 13,748,509</u>	<u>\$ 680,827</u>
<b><u>FIRE</u></b>				
Property taxes.....	\$ 3,453,211	\$ 3,453,211	\$ 3,528,049	\$ 74,838
Charges for services.....	137,000	137,000	215,321	78,321
Use of money and property.....	106,250	106,250	155,221	48,971
Other.....	5,500	5,500	24,270	18,770
<b>TOTALS</b>	<u>\$ 3,701,961</u>	<u>\$ 3,701,961</u>	<u>\$ 3,922,861</u>	<u>\$ 220,900</u>
<b><u>BROWN ROAD SPECIAL ASSESSMENT DEBT</u></b>				
Special assessments.....	\$ 448,000	\$ 448,000	\$ 539,830	\$ 91,830
Use of money and property.....	280,020	280,020	293,559	13,539
<b>TOTALS</b>	<u>\$ 728,020</u>	<u>\$ 728,020</u>	<u>\$ 833,389</u>	<u>\$ 105,369</u>
<b><u>STREET IMPROVEMENT</u></b>				
Use of money and property.....	\$ 50,000	\$ 50,000	\$ 23,247	\$ (26,753)
General fund appropriation.....	1,250,000	1,250,000	1,250,000	-
<b>TOTALS</b>	<u>\$ 1,300,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,273,247</u>	<u>\$ (26,753)</u>

**SCHEDULE OF EXPENDITURES AND OTHER USES  
BUDGET AND ACTUAL -- OTHER MAJOR FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**EXHIBIT B-6**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<b><u>MAJOR STREETS</u></b>				
Personnel services.....	\$ 194,932	\$ 194,932	\$ 152,030	\$ (42,902)
Fringe benefits.....	114,186	114,186	109,929	(4,257)
Supplies and services.....	924,554	924,554	737,934	(186,620)
Transfer to Water fund.....	32,526	32,526	32,526	-
Transfer to Sewer fund.....	32,526	32,526	32,526	-
<b>TOTALS</b>	<b>\$ 1,298,724</b>	<b>\$ 1,298,724</b>	<b>\$ 1,064,945</b>	<b>\$ (233,779)</b>
<b><u>LOCAL STREETS</u></b>				
Personnel services.....	\$ 173,132	\$ 173,132	\$ 165,870	\$ (7,262)
Fringe benefits.....	114,377	114,377	115,663	1,286
Supplies and services.....	688,687	688,687	705,545	16,858
<b>TOTALS</b>	<b>\$ 976,196</b>	<b>\$ 976,196</b>	<b>\$ 987,078</b>	<b>\$ 10,882</b>
<b><u>POLICE</u></b>				
Personnel services.....	\$ 5,258,898	\$ 5,258,898	\$ 5,231,493	\$ (27,405)
Fringe benefits.....	2,926,946	2,926,946	2,898,908	(28,038)
Supplies and services.....	2,920,799	2,920,799	2,692,229	(228,570)
Capital outlay.....	112,445	112,445	59,196	(53,249)
Transfer to Pension Fund.....	2,800,000	2,800,000	2,800,000	-
<b>TOTALS</b>	<b>\$ 14,019,088</b>	<b>\$ 14,019,088</b>	<b>\$ 13,681,826</b>	<b>\$ (337,262)</b>
<b><u>FIRE</u></b>				
Personnel services.....	\$ 1,428,448	\$ 1,428,448	\$ 1,594,452	\$ 166,004
Fringe benefits.....	648,930	648,930	659,018	10,088
Supplies and services.....	1,387,448	1,387,448	1,339,750	(47,698)
Capital outlay.....	69,970	69,970	52,765	(17,205)
<b>TOTALS</b>	<b>\$ 3,534,796</b>	<b>\$ 3,534,796</b>	<b>\$ 3,645,985</b>	<b>\$ 111,189</b>
<b><u>BROWN ROAD SPECIAL ASSESSMENT DEBT</u></b>				
Other.....	\$ 500	\$ 500	\$ 275	\$ (225)
Debt service:				
Principal payments.....	475,000	475,000	475,000	-
Interest payments.....	240,500	240,500	240,500	-
<b>TOTALS</b>	<b>\$ 716,000</b>	<b>\$ 716,000</b>	<b>\$ 715,775</b>	<b>\$ (225)</b>
<b><u>STREET IMPROVEMENT</u></b>				
Capital outlay.....	\$ 1,562,000	\$ 1,562,000	\$ 1,017,019	\$ (544,981)
<b>TOTALS</b>	<b>\$ 1,562,000</b>	<b>\$ 1,562,000</b>	<b>\$ 1,017,019</b>	<b>\$ (544,981)</b>

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the first Monday in August, City Departments, in conjunction with the Finance Office, prepare and submit their proposed operating budgets for the year beginning January 1 to the City Manager. Budgets are prepared for almost all funds of the City including the general fund, special revenue funds, debt service funds, capital project funds, internal service fund, and enterprise funds. No budget is prepared for the agency fund or the Accrued Sick and Vacation Internal Service fund.
- 2) The City Manager compiles and reviews such budget requests and then prepares recommendations and submits them to the Council on or before September 1st of each year.
- 3) A Public Hearing is conducted to obtain taxpayers' comments.
- 4) Not later than the first Monday in November, the budget is legally enacted through Council passage of the budget resolutions.
- 5) After the budget is adopted, any revisions that alter the total expenditures of a department or fund must be approved by the City Council.

The budget is adopted by the City Council on an activity (individual department) basis for the General Fund and at the fund total level for all other funds; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and other Major Governmental Funds service budgets are included in the required supplementary information. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures or liabilities. The amount of encumbrances outstanding at December 31, 2007 has not been calculated. There were no amendments to the current year budget.

Budgets shown were prepared on the same modified accrual basis used to reflect actual results. The budget has been prepared in accordance with generally accepted accounting principles (GAAP), except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)".

Significant excesses of expenditures over appropriations in individual major funds are presented below:

	<b>Excess Expenditures</b>
Fire Fund	\$ 111,189
General Fund - Parks and Grounds	302,950
Capital Improvements	196,321

The majority of the excess expenditures in the Fire Fund occurred in personnel services, which is composed salaries, wages, and benefits. Specifically, wages were over the appropriation amount by approximately \$139,000 due to full-time fire fighters attending advanced life support training and the hiring of fourteen new on-call fire fighters. The new on-call fire fighters were provided the requiring training for Fire Fighter 1 and 2 which is necessary to satisfy both state and federal requirements.

The excess expenditures in the General Fund's Park and Grounds department occurred due to a corrected billing from the City's Water Department which represented a one-time retroactive expense in the amount of \$442,418.

The excess expenditures in the Capital Improvements was attributable entirely to a land acquisition purchase.

The Special Revenue Fund, Community Development Block Grant, incurred a deficit fund balance of \$39,270 at the end of 2007. This deficit results from the City incurring expenditures eligible for reimbursement from Oakland County which administers the grant. After paying the invoices the City is able to submit the copies of paid invoices to request payment from the county. The deficit fund balance at year-end is composed entirely of eligible expenditures incurred by the City that were not reimbursed within sixty days after year-end.

# **OTHER SUPPLEMENTAL INFORMATION**

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**NON-MAJOR GOVERNMENTAL FUNDS**

**COMBINING BALANCE SHEET -- NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit C-1**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and investments (Note C).....	\$ 1,577,330	\$ 0	\$ 476,084	\$ 2,053,414
Receivables:				
Due from other governmental units.....	29,060		207,899	236,959
Due from other funds.....	27,067			27,067
Accounts.....	605		78,200	78,805
				0
<b>TOTAL ASSETS</b>	<u>1,634,062</u>	<u>0</u>	<u>762,183</u>	<u>2,396,245</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts payable.....	77,581		17,119	94,700
Wages payable.....			1,439	1,439
Due to other funds.....			15,788	15,788
Deposits payable.....	115,560			115,560
Deferred revenue.....	6,827		286,099	292,926
<b>TOTAL LIABILITIES</b>	<u>199,968</u>	<u>0</u>	<u>320,445</u>	<u>520,413</u>
<b><u>FUND BALANCES</u></b>				
Unreserved:				
Undesignated.....	1,434,094	0	441,738	1,875,832
<b>TOTAL FUND BALANCES</b>	<u>1,434,094</u>	<u>0</u>	<u>441,738</u>	<u>1,875,832</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,634,062</u>	<u>\$ 0</u>	<u>\$ 762,183</u>	<u>\$ 2,396,245</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -- NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit C-2**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<b>REVENUE</b>				
Property taxes.....	\$	\$ 188	\$	\$ 188
Licenses and permits.....				
Charges for services.....	1,080,021			1,080,021
Fines and forfeitures.....				
Federal sources.....	66,038			66,038
State sources.....	68,401		85,310	153,711
Use of money and property.....	79,364	1,206	18,352	98,922
Other revenue.....	21,382		34,095	55,477
<b>TOTAL REVENUE</b>	<b>1,315,206</b>	<b>1,394</b>	<b>137,757</b>	<b>1,454,357</b>
<b>EXPENDITURES</b>				
Current operations:				
Legislative.....	4,911			4,911
Management and planning.....	306,798	112,548		419,346
Public safety.....	635,171			635,171
Streets, highways, & public improvements.....	65,496		194,653	260,149
Community and economic development.....	212,242			212,242
General support.....	49,503			49,503
Capital outlay.....	279,777		45,957	325,734
Debt service:				
MTT refunds.....		4,816		4,816
Principal payments.....			50,000	50,000
Interest.....			34,625	34,625
<b>TOTAL EXPENDITURES</b>	<b>1,553,898</b>	<b>117,364</b>	<b>325,235</b>	<b>1,996,497</b>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<b>(238,692)</b>	<b>(115,970)</b>	<b>(187,478)</b>	<b>(542,140)</b>
<b>OTHER FINANCING SOURCES</b>				
General fund transfers.....	25,000		450,000	475,000
Transfers-in.....			0	0
Transfers-out.....			0	0
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>25,000</b>	<b>0</b>	<b>450,000</b>	<b>475,000</b>
<b>EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(213,692)</b>	<b>(115,970)</b>	<b>262,522</b>	<b>(67,140)</b>
Fund balances at beginning of year.....	1,647,786	115,970	179,216	1,942,972
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 1,434,094</b>	<b>\$ 0</b>	<b>\$ 441,738</b>	<b>\$ 1,875,832</b>

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**SPECIAL REVENUE FUNDS**

**Wayne-Oakland Disposal**-This fund is used to account for the receipt and subsequent disbursement of "tipping fees" received from the landfill operator of this landfill located in the City.

**Retiree Health Care**-This fund is used to pay other post retirement employee benefits for qualified retirees. Its source of funds is from fees charged to City Departments as a percentage of payroll based on actuarial assumptions.

**Community Development Block Grant**-This fund is used to account for the grant funds received from the Federal Government through Oakland County for projects benefiting low and moderate income persons or projects defined as having an urgent need.

**Park Improvement**-This fund is used to account for the revenues and expenditures relating to improvements made to City parks. This fund is primarily funded through State grants combined with General Fund appropriations.

**Sidewalk Improvement**-This fund is used to account for the revenues and expenditures relating to the construction and replacement of City sidewalks and bike paths. This fund is primarily funded through General Fund appropriations.

**Tree Ordinance**-This fund is used to account for the funds received under Ordinance 483 of the City which requires deposits and fees for the removal and replacement of protected species of trees.

**State and Federal Drug Forfeiture**-This fund is used to account for the money and property seized by the Police Department from individuals involved in the use, sale and distribution of illegal drugs.

**Police Grants and Donations**-This fund is used to account for the revenues and expenditures related to grants and donations that the Police Department received for operation of the DARE program and other associated law enforcement grants.

**Metro Act**-This fund is used to account for the revenue received from the State of Michigan to be used for right-of-way maintenance.

**CAPITAL PROJECT FUNDS**

**Village Center Parking**-This fund is used to account for the revenues and expenditures related to the construction of surface parking lots in the Village Center. The parking lot projects are financed by contributions from other City funds as well as charges to adjacent businesses that use the lots.

**Storm Water Management**-This fund is used to account for the revenues and expenditures relating to Storm Water Management projects in the City. This fund is funded primarily through General Fund appropriations as well as transfers from other City funds.

**DEBT SERVICE FUND**

**Library Expansion**-This fund is used to account for funding and payment of principle and interest on debt issued to finance the renovation of the City Library. The City Library, a separate governmental entity, leases this facility from the City.

**COMBINING**  
**FINANCIAL STATEMENTS**  

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**NON-MAJOR SPECIAL REVENUE FUNDS**

**COMBINING BALANCE SHEET-NON MAJOR SPECIAL REVENUE FUNDS  
DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**EXHIBIT D-1**

	<u>Wayne- Oakland Disposal</u>	<u>Retiree Health Care</u>	<u>Community Development Block Grant</u>	<u>Park Improvement</u>
<b><u>ASSETS</u></b>				
Cash and investments (Note C).....	\$ 2,766	\$ 100,550	\$ -	\$ 452,632
Receivables:				
Due from other governmental units.....			29,060	
Due from other funds.....		27,067		
Accounts receivable.....		605		
<b>TOTAL ASSETS</b>	<u>2,766</u>	<u>128,222</u>	<u>29,060</u>	<u>452,632</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts payable.....	2,635		61,503	5,364
Deposits payable.....				520
Due to other funds.....				
Deferred revenue.....			6,827	
<b>TOTAL LIABILITIES</b>	<u>2,635</u>		<u>68,330</u>	<u>5,884</u>
<b><u>FUND BALANCES (DEFICIT)</u></b>				
Fund balances (deficit)-unreserved:				
Undesignated.....	131	128,222	(39,270)	446,748
<b>TOTAL FUND EQUITY (DEFICIT)</b>	<u>131</u>	<u>128,222</u>	<u>(39,270)</u>	<u>446,748</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 2,766</u>	<u>\$ 128,222</u>	<u>\$ 29,060</u>	<u>\$ 452,632</u>

<u>Sidewalk Improvement</u>	<u>Tree Ordinance</u>	<u>State &amp; Federal Drug Forfeiture</u>	<u>Police Grants and Donations</u>	<u>Metro Act</u>	<u>Total</u>
\$ 142,402	\$ 682,429	\$ 40,224	\$ 9,539	\$ 146,788	\$ 1,577,330
0					29,060
					27,067
					605
<u>142,402</u>	<u>682,429</u>	<u>40,224</u>	<u>9,539</u>	<u>146,788</u>	<u>1,634,062</u>
2,684	112,680	3,537	2,360	1,858	77,581
					115,560
					0
					6,827
<u>2,684</u>	<u>112,680</u>	<u>3,537</u>	<u>2,360</u>	<u>1,858</u>	<u>199,968</u>
139,718	569,749	36,687	7,179	144,930	1,434,094
<u>139,718</u>	<u>569,749</u>	<u>36,687</u>	<u>7,179</u>	<u>144,930</u>	<u>1,434,094</u>
<u>\$ 142,402</u>	<u>\$ 682,429</u>	<u>\$ 40,224</u>	<u>\$ 9,539</u>	<u>\$ 146,788</u>	<u>\$ 1,634,062</u>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICIT)--SPECIAL REVENUE FUNDS  
YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**EXHIBIT D-2**

	<u>Wayne- Oakland Disposal</u>	<u>Retiree Health Care</u>	<u>Community Development Block Grant</u>	<u>Park Improvement</u>
<b><u>REVENUE</u></b>				
Licenses and permits.....	\$	\$	\$	\$
Charges for services.....		1,064,232		15,789
Federal sources.....			66,038	
State sources.....				
Use of money and property.....	2,219	5,333		20,611
Other revenues.....				
<b>TOTAL REVENUE</b>	<u>2,219</u>	<u>1,069,565</u>	<u>66,038</u>	<u>36,400</u>
<b><u>EXPENDITURES</u></b>				
Current operations:				
Legislative.....		4,911		
Management and planning.....	76,803	229,995		
Public safety.....		609,688		
Streets, highways, & public improvements....		37,528		
Community and economic development.....		129,089	73,411	9,742
General support.....		49,503		
Capital outlay.....				2,000
<b>TOTAL EXPENDITURES</b>	<u>76,803</u>	<u>1,060,714</u>	<u>73,411</u>	<u>11,742</u>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(74,584)</u>	<u>8,851</u>	<u>(7,373)</u>	<u>24,658</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
General fund transfer.....				
Transfers In.....				
Transfers Out.....				
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(74,584)</u>	<u>8,851</u>	<u>(7,373)</u>	<u>24,658</u>
Fund balance (deficit) at beginning of year.....	74,715	119,371	(31,897)	422,090
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ 131</u>	<u>\$ 128,222</u>	<u>\$ (39,270)</u>	<u>\$ 446,748</u>

<u>Sidewalk Improvement</u>	<u>Tree Ordinance</u>	<u>State &amp; Federal Drug Forfeiture</u>	<u>Police Grants and Donations</u>	<u>Metro Act</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$
					-
					1,080,021
		13,613		54,788	66,038
11,891	32,804	322	193	5,991	68,401
21,254	40		88		79,364
					21,382
33,145	32,844	13,935	281	60,779	1,315,206
					4,911
		25,483			306,798
436	14,806			12,726	635,171
					65,496
					212,242
					49,503
277,777					279,777
278,213	14,806	25,483		12,726	1,553,898
(245,068)	18,038	(11,548)	281	48,053	(238,692)
25,000					25,000
25,000	0	0	0	0	25,000
(220,068)	18,038	(11,548)	281	48,053	(213,692)
359,786	551,711	48,235	6,898	96,877	1,647,786
\$ 139,718	\$ 569,749	\$ 36,687	\$ 7,179	\$ 144,930	\$ 1,434,094

# **COMBINING FINANCIAL STATEMENTS**

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**CAPITAL PROJECT FUNDS**

**COMBINING BALANCE SHEET -- CAPITAL PROJECT FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit E-1**

	<u>Village Center Parking</u>	<u>Storm Water Management</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and investments (Note C).....	\$ 253,314	\$ 222,770	\$ 476,084
Accounts Receivable.....	78,200		78,200
Due from other governmental units.....		207,899	207,899
<b>TOTAL ASSETS</b>	<b>331,514</b>	<b>430,669</b>	<b>762,183</b>
<b><u>LIABILITIES AND FUND EQUITY (DEFICIT)</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable.....		17,119	17,119
Wages payable.....		1,439	1,439
Due to other funds.....		15,788	15,788
Deferred revenue.....	78,200	207,899	286,099
<b>TOTAL LIABILITIES</b>	<b>78,200</b>	<b>242,245</b>	<b>320,445</b>
<b><u>FUND BALANCE (DEFICIT)</u></b>			
Unreserved:			
Undesignated.....	253,314	188,424	441,738
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>253,314</b>	<b>188,424</b>	<b>441,738</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 331,514</b>	<b>\$ 430,669</b>	<b>\$ 762,183</b>



**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICIT) -- CAPITAL PROJECT FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit E-2**

	<b><u>Village Center Parking</u></b>	<b><u>Storm Water Management</u></b>	<b><u>Total</u></b>
<b><u>REVENUE</u></b>			
State sources.....	\$	\$ 85,310	\$ 85,310
Use of money and property.....	11,849	6,503	18,352
Other .....	400	33,695	34,095
<b>TOTAL REVENUE</b>	<b>12,249</b>	<b>125,508</b>	<b>137,757</b>
<b><u>EXPENDITURES</u></b>			
Streets, highways & public improvements.....		194,653	194,653
Capital outlay.....		45,957	45,957
Debt service:			
Principal payments.....		50,000	50,000
Interest payments.....		34,625	34,625
<b>TOTAL EXPENDITURES</b>		<b>325,235</b>	<b>325,235</b>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<b>12,249</b>	<b>(199,727)</b>	<b>(187,478)</b>
<b><u>OTHER FINANCING SOURCES</u></b>			
Sewer fund transfers.....		450,000	450,000
<b>TOTAL OTHER FINANCING SOURCES</b>		<b>450,000</b>	<b>450,000</b>
<b>EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>12,249</b>	<b>250,273</b>	<b>262,522</b>
Fund balances (Deficit) at beginning of year.....	241,065	(61,849)	179,216
<b>FUND BALANCES (DEFICIT) AT END OF YEAR</b>	<b>\$ 253,314</b>	<b>\$ 188,424</b>	<b>\$ 441,738</b>

**COMBINING  
FINANCIAL STATEMENTS**

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**INTERNAL SERVICE FUNDS**

## INTERNAL SERVICE FUNDS

### FUND DESCRIPTIONS

**Fleet Management**-This fund is used to account for the operations of all City vehicles excluding Fire Department Apparatus.

**Accrued Sick and Vacation**-This fund is used to account for the liability of accrued sick, vacation, and compensatory time.

**STATEMENT OF NET ASSETS -- INTERNAL SERVICE FUNDS  
DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit F-1**

	<u>Fleet Management</u>	<u>Accrued Sick &amp; Vacation</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b><u>CURRENT ASSETS</u></b>			
Cash and investments (Note C).....	\$ 1,884,860		\$ 1,884,860
Receivables:			
Due from other funds.....		\$ 1,620,505	1,620,505
<b>TOTAL CURRENT ASSETS</b>	<b>1,884,860</b>	<b>1,620,505</b>	<b>3,505,365</b>
<b><u>LAND, BUILDINGS AND EQUIPMENT</u></b>			
Machinery & equipment.....	1,049,219		1,049,219
Vehicles.....	4,179,303		4,179,303
<b>TOTAL CAPITAL ASSETS</b>	<b>5,228,522</b>	<b>0</b>	<b>5,228,522</b>
Less: Allowance for depreciation.....	3,530,958		3,530,958
<b>TOTAL CAPITAL ASSETS NET OF DEPRECIATION</b>	<b>1,697,564</b>	<b>0</b>	<b>1,697,564</b>
<b>TOTAL ASSETS</b>	<b>3,582,424</b>	<b>1,620,505</b>	<b>5,202,929</b>
<b><u>LIABILITIES</u></b>			
<b><u>CURRENT LIABILITIES</u></b>			
Accounts payable.....	\$ 165,091		\$ 165,091
Due to other funds.....	36,895		36,895
Accrued payroll and other liabilities.....	5,016	1,620,505	1,625,521
<b>TOTAL LIABILITIES</b>	<b>207,002</b>	<b>1,620,505</b>	<b>1,827,507</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets.....	1,697,564		1,697,564
Undesignated.....	1,677,858		1,677,858
<b>TOTAL NET ASSETS</b>	<b>\$ 3,375,422</b>	<b>\$ 0</b>	<b>\$ 3,375,422</b>

**COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN  
FUND NET ASSETS -- INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit F-2**

	<u>Fleet Management</u>	<u>Accrued Sick &amp; Vacation</u>	<u>Total</u>
<b><u>OPERATING REVENUE</u></b>			
Equipment rental charges.....	\$ 1,224,731		\$ 1,224,731
Vehicle rental fees.....	725,415		725,415
Other operating income.....	0	\$ 153,070	153,070
<b>TOTAL OPERATING REVENUE</b>	<b>1,950,146</b>	<b>153,070</b>	<b>2,103,216</b>
<b><u>OPERATING EXPENSES</u></b>			
Salaries and wages.....	181,998	146,024	328,022
Fringe benefits.....	150,266	7,046	157,312
Supplies.....	418,613		418,613
Contracted services.....	118,759		118,759
Other operating expenses.....	356,443		356,443
Depreciation and amortization.....	593,261		593,261
<b>TOTAL OPERATING EXPENSES</b>	<b>1,819,340</b>	<b>153,070</b>	<b>1,972,410</b>
<b>TOTAL OPERATING INCOME</b>	<b>130,806</b>	<b>0</b>	<b>130,806</b>
<b><u>NONOPERATING REVENUE</u></b>			
Interest earned.....	103,226		103,226
Other income.....	155,433		155,433
<b>TOTAL NONOPERATING REVENUE</b>	<b>258,659</b>	<b>0</b>	<b>258,659</b>
<b>CHANGE IN NET ASSETS</b>	<b>389,465</b>	<b>0</b>	<b>389,465</b>
Net assets-beginning of year.....	2,985,957	0	2,985,957
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,375,422</b>	<b>\$ 0</b>	<b>\$ 3,375,422</b>

**COMBINING STATEMENT OF CASH FLOWS-  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**CITY OF AUBURN HILLS**

**Exhibit F-3**

	<u>Fleet Management</u>	<u>Accrued Sick &amp; Vacation</u>	<u>Total</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Cash received from customers.....	\$ 1,950,146		\$ 1,950,146
Cash payments for goods and services.....	(419,222)		(419,222)
Cash payments to employees.....	(331,215)		(331,215)
Other operating expenses.....	(356,443)		(356,443)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>843,266</b>	<b>\$ 0</b>	<b>843,266</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>			
Operating transfers in.....	0		0
Other nonoperating receipts.....	155,433		155,433
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>155,433</b>	<b>0</b>	<b>155,433</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Purchase of capital assets.....	(1,113,091)		(1,113,091)
<b>NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,113,091)</b>	<b>0</b>	<b>(1,113,091)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Interest received on investments.....	103,226		103,226
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>103,226</b>	<b>0</b>	<b>103,226</b>
Net Increase in cash and cash equivalents.....	(11,166)		(11,166)
Cash and cash equivalents-Beginning of year.....	1,896,026	0	1,896,026
Cash and cash equivalents-end of year.....	<u>\$ 1,884,860</u>	<u>\$ 0</u>	<u>\$ 1,884,860</u>
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>			
Operating income .....	\$ 130,806	\$ 0	\$ 130,806
<b><u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>			
Depreciation and Amortization Expense.....	593,261		593,261
Decrease (increase) in due from other funds.....		(153,070)	(153,070)
Increase (decrease) in accounts payable.....	118,150		118,150
Increase (decrease) in due to other funds.....	1,046		1,046
Increase (decrease) in accrued payroll and other liabilities.....	3	153,070	153,073
Total Adjustments.....	<u>712,460</u>	<u>0</u>	<u>712,460</u>
Net cash provided by operating activities.....	<u>\$ 843,266</u>	<u>\$ 0</u>	<u>\$ 843,266</u>

# **City of Auburn Hills**

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**Report to the Mayor and Members of the City Council  
December 31, 2007**



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

To the Honorable Mayor and Members  
of the City Council  
City of Auburn Hills  
1827 North Squirrel Road  
Auburn Hills, MI 48326

Dear Mayor and Council Members:

We recently completed the audit of the basic financial statements of the City of Auburn Hills for the year ended December 31, 2007. In addition to our audit report, we are providing the following report on internal control, report on the results of the audit process, summary of unrecorded possible adjustments, and informational comments which impact the City:

	<u>Page</u>
<b>Report on Internal Control</b>	2-4
<b>Report on the Results of the Audit Process</b>	5-8
<b>Summary of Unrecorded Possible Adjustments</b>	9-10
<b>Informational Comments</b>	11-14

We are appreciative of the opportunity to be of service to the City of Auburn Hills. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

June 4, 2008



June 4, 2008

To the Honorable Mayor and Members  
of the City Council  
City of Auburn Hills  
1827 North Squirrel Road  
Auburn Hills, MI 48326

Dear Mayor and Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City of Auburn Hills' financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Auburn Hills as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Auburn Hills' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Auburn Hills' internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We did note additional items that should be considered in order to enhance internal controls;

- While we noted that the Treasurer's Department and Finance Department have improved the communication and transactions flow regarding bank reconciliation copies being provided to the Finance Department, we did note a time lag in some bank reconciliation copies being provided due to staffing issues. We did subsequently note that the timeliness of this process is on track in 2008. This process will allow for timely review of the reconciliations to ensure all transactions have been adequately recorded on the general ledger.
- We noted that during 2007 there was a lack of timely recording of interest earned from investments in certificates of deposits (CDs). We suggest that when CDs are rolled over, the interest that is earned should be immediately communicated to the Finance Department along with the new CD's rate and duration of investment holding. This communication flow would allow for the general ledger to be updated timely reflecting accurate interest earnings. It was noted that this process is in place for 2008 and that this information is being communicated in a timelier manner.
- We noted that the City does not have a formal capitalization policy adopted by the City Council nor does the City Council formally approve the acceptance of donated assets. We noted that the City does adhere to an informal capitalization threshold and noted that all donated assets are properly valued by the City's engineers. However, a formal City Council-approved policy is recommended.
- In addition, as a result of the review of the general controls over the City's information technology (IT) system, we offer the following items to strengthen the IT control environment:
  - We recommend that a formal process be implemented requiring the use of a paper or electronic form to be completed by the human resource department to immediately notify the IT department when an employee is terminated, hired, or changes positions. This will allow the IT department to immediately remove, allow access, or change the allowed access to the system based on the employee's status.
  - We noted that the IT department has access to the financial applications and has the ability to post financial transactions. While we did note that all journal entries are reviewed monthly by management, the City may want to consider restricting individuals with administrative access from access to post transactions in the financial systems. This allows for proper segregation of duties and ensures that user access and accountability controls are not compromised.

To the Honorable Mayor and Members  
of the City Council  
City of Auburn Hills

June 4, 2008

- The City may want to consider enforcing password complexity along with its other authentication controls that are in place, which include enforced minimum password length and inactivity time-outs. In addition, the City may want to ensure that fire logs be reviewed daily or weekly and that the information security program which all employees sign be updated to cover all aspects of the IT environment.

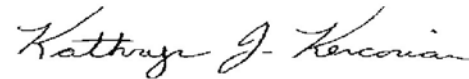
This communication is intended solely for the information and use of management, the City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Beth Bialy". The script is cursive and fluid.

Beth Bialy

A handwritten signature in black ink that reads "Kathryn J. Kercorian". The script is cursive and elegant.

Kathryn Kercorian

June 4, 2008

To the Honorable Mayor and Members  
of the City Council  
City of Auburn Hills  
1827 North Squirrel Road  
Auburn Hills, MI 48326

Dear Mayor and Council Members:

We recently completed the audit of the basic financial statements of the City of Auburn Hills for the year ended December 31, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 23, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated April 14, 2008.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was related to the recording of liabilities and expenditures for the pending tax tribunal cases.

Management's estimate of the amount owed related to the pending tax tribunal cases resulted from the assessor's analysis of the potential liability based on the difference from the current assessed property tax values versus the estimated reduction in the assessed values based on the contested claim filed by the taxpayer. The claims have been incurred through December 31, 2007, but have not yet been paid by the City. We evaluated the key factors and assumptions used to develop the estimates in determining that the amounts recorded are reasonable in relation to the financial statements taken as a whole.

In addition, during 2003, the State of Michigan asserted a claim for a refund of school taxes captured for Tax Increment Financing Authority (TIFA) purposes. This issue has not been settled. We understand that the City's belief is that the majority if the funds were captured and spent in accordance with all applicable laws and regulations regarding tax increment financing. The City has recorded a liability of approximately \$4,400,000. We evaluated the key factors and assumptions used to develop the estimates in determining that the amounts recorded are reasonable in relation to the financial statements taken as a whole.

## **Disclosures**

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are related to the retirement and other post-employment benefits.

## **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Honorable Mayor and Members  
of the City Council  
City of Auburn Hills

June 4, 2008

### **Significant Audit Adjustments and Uncorrected Misstatements Deemed by Management to be Immaterial**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached summary of unrecorded possible adjustments summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management's Representations**

We have requested certain representations from management that are included in the management representation letter dated June 4, 2008.

### **Management's Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Auburn Hill's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to commencement of the audit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

To the Honorable Mayor and Members  
of the City Council  
City of Auburn Hills

June 4, 2008


This information is intended solely for the use of the City Council and management of the City of Auburn Hills and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Beth Bialy". The script is cursive and fluid.

Beth Bialy

A handwritten signature in black ink that reads "Kathryn J. Kercorian". The script is cursive and elegant.

Kathryn Kercorian

## Summary of Unrecorded Possible Adjustments

### Governmental Activities, General Fund, and Police Fund 12/31/2007

Description of Misstatement	Increases (Decreases)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
To reduce 2007 payroll expense for portion of retroactive pay which applied to 2006 due to police contract expiring in 2005 but no potential liability being recorded in 2006 for open contract year			\$ (150,000)		\$ (150,000)
To reduce General Fund expense for the portion of the retroactive water bill not billed in previous years from the Water Fund			(414,767)		(414,767)
	\$ -	\$ -	-	\$ -	-
Combined effect	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (564,767)</u>	<u>\$ -</u>	<u>\$ (564,767)</u>

### Business-type Activities, Water Fund and Sewer Fund 12/31/2007

Description of Misstatement	Increases (Decreases)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
To allocate depreciation adjustment to correct year			\$ 120,246		\$ 120,246
To reduce Water Fund revenue for the portion of the retroactive water bill not billed to the General Fund in previous years			414,767	\$ (414,767)	
	\$ -	\$ -	-	-	-
Combined effect	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,013</u>	<u>\$ (414,767)</u>	<u>\$ 120,246</u>



**Summary of Unrecorded Possible Adjustments (Continued)**

**Aggregate Discretely Presented Component Units  
12/31/2007**

Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
December 07 CD interest not recorded TIFA-A	\$ 31,598			\$ 31,598	
December 07 CD interest not recorded TIFA-B	17,774			17,774	
To reduce Brownfield deferred revenue and receivable by half IFT taxes and summer taxes collected	(103,744)	\$ (103,744)			
To reduce TIFA A deferred revenue and receivable by summer taxes collected	(79,604)	(79,604)			
To reduce TIFA B deferred revenue and receivable by summer taxes collected	(114,784)	(114,784)			
To reduce TIFA D deferred revenue and receivable by summer taxes collected	(420,314)	(420,314)			
	-	-	\$ -	-	\$ -
Combined effect	<u>\$ (669,074)</u>	<u>\$ (718,446)</u>	<u>\$ -</u>	<u>\$ 49,372</u>	<u>\$ -</u>

**Fire Fund (Major Governmental Fund)  
12/31/2007**

Increases (Decreases)					
Description of Misstatement	Assets	Liabilities	Fund Balance	Revenue	Expenditures
To reduce revenue and receivable for payment received before year end	\$ (7,672)			\$ (7,672)	
	-	\$ -	\$ -	-	\$ -
Combined effect	<u>\$ (7,672)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,672)</u>	<u>\$ -</u>

## **Informational Comments**

### **Real Estate Market**

Recent conditions in the real estate market are expected to have a negative impact on taxable values, even in growing communities such as the City of Auburn Hills. The good news is that a given drop in market values will not result in an equivalent drop in taxable values. On the other hand, if market values continue to decline, taxable value will ultimately be impacted. In other words, if we were to experience a theoretical 10 percent market decline three years in a row, the effect on taxable value (which would be different for each community) might be a 1 percent drop in the first year, 4 percent the next year, and 7 percent in the third. For this reason, it will be important to closely monitor taxable value, since this has the capacity to severely impact future years.

On the positive side, the City continues to demonstrate a strong financial position, both in short-term and long-term measures, including a low overall debt ratio. This strong financial position is a good indicator that the City will weather the next few years.

### **Water and Sewer Fund**

It was noted in the prior year that the City's Water and Sewer Funds experienced a significant increase to their operational loss which was mainly due to the enhanced accuracy of the meters used for the City's purchase of water and the accounting change the City made related to the lives of certain fixed assets. The enhancements served to decrease the unusual water gain the City had been experiencing in prior years, and the City is now realizing a water loss consistent with the average of communities in Oakland County. In addition, during 2007, the County switched its billing method related to sewage and is now billing the City based on metered sewage. This change resulted in a one-time refund from previous years' overcharges of approximately \$1.3 million received in 2007. Even with this large refund in the Sewage Fund in the current year, both funds still experienced an operating loss in 2007. It is our understanding that the City is continually re-evaluating the rate structure in order to properly fund operations and maintenance, capital, and debt-related costs, as well as maintaining an appropriate level of working capital.

## Informational Comments (Continued)

### State-shared Revenue

As mentioned above, the future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's fiscal year 2007/2008 budget. The outcome of the following matters will also impact revenue sharing:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The potential impact is that as counties come back into the revenue-sharing formula, if the total statutory revenue-sharing pot does not grow accordingly, this will reduce the amount available for cities.
- The statutory revenue-sharing formula expired in 2007 and has been temporarily extended. Legislative action is required on this Act for appropriations to continue into 2008 and beyond. The current statutory formula expired in September 2007, but has been temporarily extended. It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Currently, the governor's budget for the State's fiscal year 2007/2008 is estimating an increase to revenue sharing of approximately 1.5 percent. With the uncertainty of revenue sharing, we recommend that the City be conservative when estimating this revenue source.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Auburn Hills has approximately \$230,000 at risk in its General Fund budget based on current funding levels.

## Informational Comments (Continued)

### Legislative Issues and Other Matters

#### **Property Tax Legislation**

A series of House bills was introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property.

With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of uncapped values, or the pop-up amount, when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the pop-up or uncapping of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The pop-up or uncapping of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the pop-up or uncapped value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as additions to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14, 2008 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not yet been voted on in the House.

## **Informational Comments (Continued)**

In addition, House Bill 4215 passed the House on April 9, 2008, creating PA 96, which allows property owners to have two principal residence (homestead) exemptions in certain situations. This new law amends MCL 211.7cc of the General Property Tax Act. The legislation is designed to allow Michigan residents to maintain the principal residence status on their first home when they are unable to sell that home before they move into a new residence. The property owner must file a form for each residence/property with the local assessor by May 1, 2008 in order to receive the exemption for this tax year. In order to qualify, the owner of the residence/property must be a Michigan resident, the home in question must have been the principal residence prior to the owners moving out, the vacated home must remain unoccupied and may not be rented in order to receive the exemption, and the property must be offered for sale. This homestead exemption may be renewed for an additional two years after the initial filing, but requires the property owner to notify the assessor by December 31 of each year to receive the tax break.

### **Investment Reporting**

Public Act 213 of 2007 has been signed by the governor and now requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution with maturity date and interest rates.

We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.